



**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 12, 2021
<b>SUBJECT/REPORT NO:</b>	2020 Reserve Report (FCS21063) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Marcin Zukowski (905) 546-2424 Ext. 2162
<b>SUBMITTED BY:</b>	Brian McMullen Director, Financial Planning, Administration and Policy Corporate Services Department
<b>SIGNATURE:</b>	

**RECOMMENDATION(S)**

- (a) That the 2020 Reserve Report and the 2020 Reserves Detail Report, with 2019 Comparative figures and 2021-2023 Projections, attached as Appendix “A” to Report FCS21063, be received;
- (b) That a Neonatal Interfacility Reserve Policy, attached as Appendix “C” to Report FCS21063, be approved and that the reserve be established subject to the terms outlined in the Policy;
- (c) That a Community Paramedicine LTC Reserve Policy, attached as Appendix “D” to Report FCS21063, be approved and that the reserve be established subject to the terms outlined in the Policy.

**EXECUTIVE SUMMARY**

The purpose of Report FCS21063 is to present Council with a detailed summary of the status of the City of Hamilton’s reserves as of December 31, 2020 in comparison to the 2019 year-end balance, as well as, projections for the years 2021-2023. The 2021-2023 forecast is based on budgeted transfers to and from the reserves, as well as, other known requirements including anticipated income and investment activities.

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 positions as at December 31, 2019 and 2020, as well as projected balances for December 31, 2021, 2022 and 2023.

Tax and Rate Supported Reserves, Obligatory Reserves and the Hamilton Future Fund totalled \$1,153 M at December 31, 2020, representing a \$156 M, or 15.7%, increase over the 2019 balance of \$997 M. A significant portion of this increase is the result of 2020 Development Charge (DC) collections exceeding DC Capital financing by \$97 M, the 2020 net operating surplus (tax and rate) of \$51 M, unused Safe Restart Agreement funding of \$15 M, an increase in the Federal Gas Tax Reserve of \$14 M and an \$11 M increase in the Parkland Dedication Reserve. The overall increase was partially offset by draws on Rate Supported Reserves of \$57 M. The balance of the changes is detailed in Appendix “A” to Report FCS21063.

The overall reserve balance for 2021 is forecasted to decrease by \$84 M, or 7.4%, from \$1,153 M in 2020 to \$1,068 M in 2021 based on current commitments. The decrease is primarily driven by Rate Supported Reserves in the amount of \$76 M for Wastewater Treatment Plant upgrades, which is partially offset by an increase of \$32 M in Obligatory Reserves for funding received from senior levels of government through the Safe Restart Agreement and the COVID-19 Recovery Funding for Municipalities Program that is expected to be unspent in 2021 and carried forward to 2022.

**TABLE 1  
Overall Reserve Position**

	<b>Balance</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>
	<b>Dec 31, 2019</b>	<b>Dec 31, 2020</b>	<b>Dec 31, 2021</b>	<b>Dec 31, 2022</b>	<b>Dec 31, 2023</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Tax Supported Reserves	390,768,891	459,002,459	413,090,385	395,871,073	431,369,026
Rate Supported Reserves	221,743,518	164,977,178	89,286,066	64,836,801	45,612,584
<b>Total Non Obligatory</b>	<b>612,512,409</b>	<b>623,979,637</b>	<b>502,376,451</b>	<b>460,707,874</b>	<b>476,981,610</b>
Obligatory Reserves	331,278,863	470,580,042	503,425,408	525,887,088	570,163,058
<b>Sub-total before Future Fund</b>	<b>943,791,272</b>	<b>1,094,559,679</b>	<b>1,005,801,859</b>	<b>986,594,962</b>	<b>1,047,144,668</b>
Hamilton Future Fund Reserves	52,963,110	58,466,387	62,377,081	67,708,333	73,152,972
<b>Total Reserves</b>	<b>996,754,382</b>	<b>1,153,026,066</b>	<b>1,068,178,940</b>	<b>1,054,303,295</b>	<b>1,120,297,640</b>

\*Note: Anomalies due to rounding

Recommendations (b) and (c) to Report FCS21063 seek approval to establish a Neonatal Interfacility Reserve and Community Paramedicine LTC Reserve to track funding provided through the Ministry of Health’s Neonatal Interfacility Transfers Program and the Ministry of Long-Term Care’s Community Paramedicine Long-Term Care Program.

**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 the City’s reserves has met several financial objectives, such as to moderate tax and rate increases, to fund or expand the City’s capital program and to limit long-term debt. The appropriate use of reserves reduces financial risk to tax and rate payers 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 October 14, 2020, S&P’s Global Rating Services (S&P) affirmed its “AA+” (stable) credit rating for the City of Hamilton for long-term issuer credit and senior unsecured debt. The City maintained strongest scores for economy, liquidity and debt burden, while also scoring high in institutional framework, financial management and budgetary performance. In S&P’s report, it was cited that supportive institutions and prudent financial management will support the City of Hamilton’s creditworthiness as the economy navigates the COVID-19 pandemic and recovery.

**Debt Indicators**

As at December 31, 2020, the City had total debt outstanding of \$341 M (excluding Mortgages and Lease Purchase Agreements). Total approved debt for the City is \$348M, not including previously approved debt still to be issued. This number is expected to increase with forecasts showing potential approved debt outstanding of \$1,042 M in 2023. The amount of actual debt outstanding may be less because of timing in debenture issuance, delay in project closings or project deferrals.

The increase in debt over the next three years is attributable to substantial investment in the City’s Water, Wastewater and Storm Infrastructure, Social Housing Infrastructure, West Harbor Initiatives, Transit Infrastructure, as well as, significant Development Charge supported debt to fund both Rate and Tax related growth infrastructure needs.

The annual debt payments are planned for and recovered through the property tax levy (tax supported debt), rate user fees (rate supported debt) or DC reserves (DC supported debt) depending on the nature of the debt. Staff monitors and reports on both Council approved and legislative thresholds through the annual budgeting process and anytime new debt is being considered for approval.

Selected financial indicators related to potential outstanding debt forecasts can be found in Table 2.

**TABLE 2**

Selected Financial Indicators	Fiscal Year End December 31				
	<u>2019</u>	<u>2020</u>	<u>2021(f)</u>	<u>2022(f)</u>	<u>2023(f)</u>
Approved Debt Outstanding (excluding Mortgages and Lease Purchase Agreements) (\$M's)	401	341	348	904	1,042
Debt per Capita (\$)	692.48	581.04	585.19	1,505.14	1,717.95
Debt Per Capita Year Over Year (% Change)	-8%	-16%	1%	157%	14%
Debt to Reserve Balance	40%	30%	32%	85%	93%

\*Note: Anomalies due to rounding

## **POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS**

The 2020 Reserve Report (Report FCS21063) is prepared in accordance with City of Hamilton Reserve Policy – Administration of Financial Reserves and Reserve Funds, as well as, relevant legislation and agreements (i.e. the *Municipal Act, Development Charges Act, Building Code Act* and Federal Gas Tax Fund).

## **RELEVANT CONSULTATION**

Staff from all City Departments, the Hamilton Police Service and the Hamilton Public Library have reviewed and provided information for the preparation of the 2020 Reserve Report and the 2020 Reserves Detail Report, which is attached as Appendix “A” to Report FCS21063.

## **ANALYSIS AND RATIONALE FOR RECOMMENDATION(S)**

### **2020 Actual Activities**

The overall reserve position increased by \$156 M, or 15.7%, from \$997 M in 2019 to \$1,153 M in 2020. The following factors drove the year-over-year increase:

- **Obligatory Reserves:** increase of \$140 M, which was largely attributed to a \$97 M increase in 2020 Development Charge collections over capital financing requirements, \$15 M of unused Safe Restart Agreement funding in 2020, a \$14 M increase in the Federal Gas Tax Reserve, as well as, a \$11 M increase in the Parkland Dedication Reserve;
- **Tax Supported Reserves:** increase of \$68 M which was largely attributed to the 2020 Tax Supported Operating Surplus of \$55 M; and
- **Rate Supported Reserves:** a \$57 M decrease in Rate Supported Reserves to support capital infrastructure requirements.

Recommendations (b) and (c) to Report FCS21063 seek approval to establish the following reserves:

- **Neonatal Interfacility Reserve** for the purpose of funding of life-cycle replacement, conversion and fit-up of a Paramedic Service ambulance and related equipment which is dedicated to supporting the Ministry of Health’s Neonatal Interfacility Transfers program; and
- **Community Paramedicine LTC Reserve** for the purpose of life-cycle replacement, conversion and fit-up of Paramedic Service vehicles and related equipment which is dedicated to supporting the Ministry of Long-Term Care’s Community Paramedicine Long-Term Care program.

**TABLE 3**

<b>OVERALL RESERVE POSITION 2020 ACTIVITY BY RESERVE GROUP (\$Millions)</b>					
	<b>Tax Supported Reserves</b>	<b>Rate Supported Reserves</b>	<b>Obligatory Reserves</b>	<b>Future Fund Reserves</b>	<b>Total Reserves</b>
<b>Balance - January 1, 2020</b>	<b>\$390.3</b>	<b>\$221.7</b>	<b>\$331.7</b>	<b>\$52.9</b>	<b>\$996.6</b>
<b>Add:</b>					
Interest Earned	8.7	3.8	7.4	1.2	21.1
Provisions for Reserve	88.7	5.6	61.4	0.0	155.7
Program / Capital Surpluses	20.6	0.3	0.6	0.0	21.6
Repayments of Internl Debt	9.6	0.5	0.9	8.4	19.5
Collections / Recoveries	8.6	0.0	110.7	0.0	119.4
Gas Tax Revenue	0.0	0.0	52.8	0.0	52.8
Special Levy-Ward Infrastructure Investment	13.4	0.0	0.0	0.0	13.4
Fees / Donations/ Sales	0.4	0.0	9.1	0.0	9.5
Other Revenue	5.9	0.3	0.0	0.0	6.2
	<b>156.0</b>	<b>10.5</b>	<b>242.9</b>	<b>9.7</b>	<b>419.2</b>
<b>Less:</b>					
Capital Program Funding	1.3	32.4	0.0	0.0	33.7
Vehicle and Equipment Funding	26.3	0.0	0.0	0.0	26.3
Borrowing to be Repaid	1.3	0.0	9.1	0.0	10.5
Program Phase-ins/Pilot /Grants	0.8	0.0	0.0	0.0	0.8
Property Purchases	0.2	0.0	0.0	0.0	0.2
Inter Reserve Transfers	0.0	0.0	0.0	0.0	0.0
Other Expenditures	61.4	31.2	94.5	4.2	191.3
	<b>91.3</b>	<b>63.6</b>	<b>103.6</b>	<b>4.2</b>	<b>262.7</b>
<b>Ending Balance - December 31, 2020</b>	<b>\$455.0</b>	<b>\$168.7</b>	<b>\$471.0</b>	<b>\$58.4</b>	<b>\$1,153.0</b>

**\*Note: Anomalies due to rounding**

## Reserve Balances

Over the last five years, the reserve balances have increased from \$860 M in 2016 to a balance of \$1,095 M as at December 31, 2020 (excludes Future Fund Reserves). The increase is primarily the result of increases in reserve provisions and overall collections, including Development Charges and Federal Gas Tax, offset by reductions in capital program funding and capital financing charges.

Staff is forecasting a decrease in reserve balances of \$88.8 M (excludes Future Fund Reserves) over 2021, primarily due to completion of the Woodward Wastewater Treatment and Biosolids project and clearing parkland dedication liabilities.

By 2022, Obligatory Reserve balances are expected to increase by \$55.3 M mainly due to an anticipated increase in DC collections versus capital spending, as well as, unused COVID-19 emergency funding from senior levels of government and a one-time transfer payment of an additional \$32 M in Federal Gas Tax. It is anticipated that the Safe Restart Agreement and COVID-19 Recovery Funding for Municipalities Program funding will be fully utilized by 2022, as well as, the majority of City-owned source funds from the COVID-19 Emergency Reserve, in offsetting pressures related to the pandemic response through the remainder of 2021 and 2022. The City of Hamilton has received an additional \$32 M in Gas Tax funding. The additional funding will support infrastructure projects across Canada and aid the economic recovery from the COVID-19 pandemic.

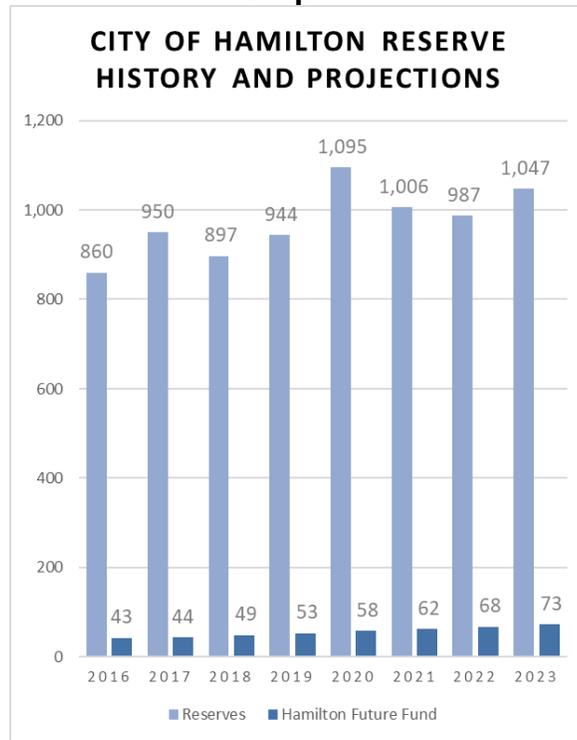
The DC reserves classified under Obligatory Reserves are a function of development activity and capital infrastructure construction. Where capital infrastructure is required in advance of the development, debt issuances will be closely monitored to ensure sustainability of the DC reserves. Soft services (i.e. recreation, library, parking) 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.

Report FCS21047, presented at the June 17, 2021 meeting of the Audit, Finance and Administration Committee meeting provides additional detail on the DC Reserves.

Tax Supported Reserves are forecasted to remain flat through 2023 and Rate Supported Reserves to decrease by \$66.2 M primarily due to completion of the Woodward Wastewater Treatment.

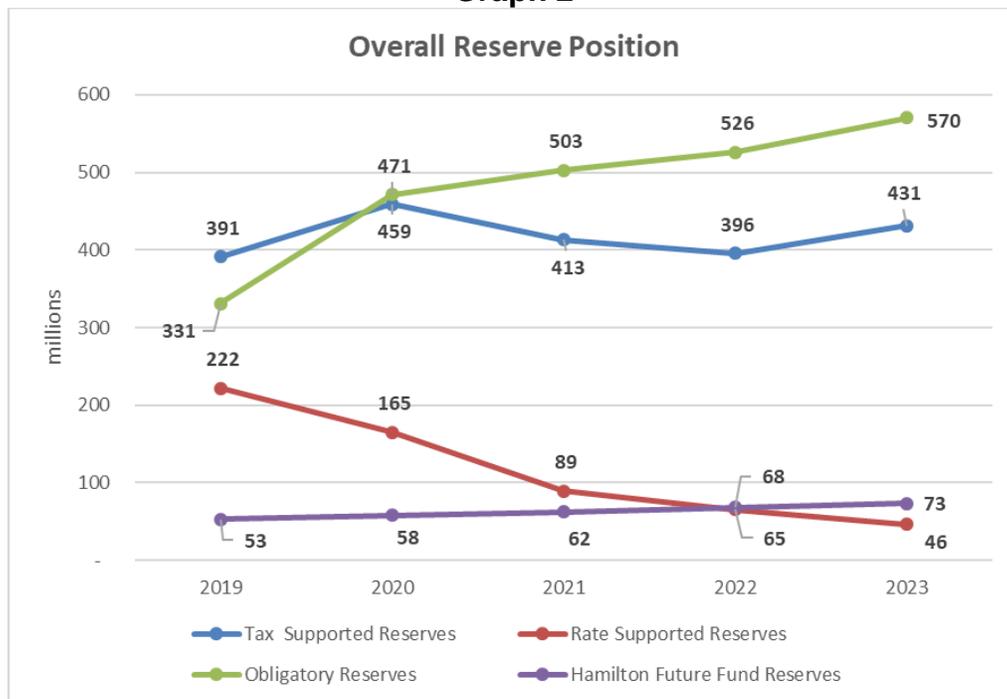
Graph 1 shows a five-year reserve history and 2021-2023 reserve projections for the City of Hamilton.

**Graph 1**



Graph 2 shows reserve history for 2019 and 2020 and reserve projections for 2021 to 2023 by reserve group.

**Graph 2**



## Sustainability of Reserves

The 2020 Reserves Detail Report, attached as Appendix “A” to Report FCS21063, indicates whether the reserves are sustainable in the short to medium term or not. The criteria used to determine sustainability is as follows:

- If the annual contributions are sufficient to offset future requirements over the three-year forecast 2021-2023;
- 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.

The following list shows the reserves that are forecasted to be non-sustainable as of June 2021:

100033 - Hamilton Paramedic Service – Equipment Replacement  
110021 - Hamilton Fire Department – Vehicle Replacement  
112035 - Sick Leave Liability - General  
112203 - Red Light Camera Project  
112205 - Winter Control  
112270 - Waste Management Recycling  
999998 - Developer Recoveries

The sustainability of reserves continues to be assessed. There may be different approaches to addressing reserve sustainability depending on the nature and purpose of the reserve.

It is expected that the Hamilton Paramedic Service – Equipment Replacement and Hamilton Fire Department – Vehicle Replacement Reserves will be sustainable in the long-term through increases to contributions in the Operating Budget in the multi-year plan. The reserves are expected to go negative in the forecast period (2021 to 2023) as a result of freezes to annual contribution increases in recent budget cycles, which have caused temporary shortages in meeting capital replacement requirements. These shortages will be managed by short-term internal borrowing from other City reserves.

## Outstanding Liabilities

The City provides certain employee benefits that require funding in future years, which are currently estimated at \$388 M as at December 31, 2020. The City has established reserves to provide for some of these liabilities while other amounts, such as accrued vacation, have been recorded as liabilities on the City’s Balance Sheet. The amounts in the reserves to provide for the liabilities total \$91.9M, or 24.2%, of the total liability thus leaving net employee-related unfunded liabilities to be recovered in the future from either reserves or the operating fund at \$296.1 M as illustrated in Table 4.

Currently, there is no Public Sector Accounting Board (PSAB) requirement to provide funding for the net unfunded liability portion of these employee benefits 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. A financing strategy requires approval by Council either through a report or through the Budget process. Corporate Services staff 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 Glanbrook site is estimated to reach capacity and close in 2055. The estimated liability for future costs associated with the operational site and post-closure care of the closed sites is estimated at \$65 M net of provisions in the reserves. This liability amount is primarily comprised of two factors: resetting the post period monitoring of closed landfills to 50 years and the addition of internal staff costs being added to the landfill liability calculation. It is important to note that this is an estimated amount and will be funded on an as-needed basis as future landfill liabilities come due.

Including the landfill site, total liabilities to be recovered in the future, are estimated at \$360 M. Table 4 summarizes the estimated future liabilities by category.

**Table 4**

<b>Estimate of Outstanding Liabilities (\$ 000's)</b>		
	<b>2020</b>	<b>2019</b>
<b>Employee Benefits and Future Obligations:</b>	<b>\$</b>	<b>\$</b>
Sick Leave Benefit Plan	60,015	58,789
Long Term Disability Plan	43,676	33,431
Worker's Safety & Insurance Board Liabilities (WSIB)	128,967	97,787
Retirement Benefits	168,449	153,571
Vacation Benefits	27,212	26,806
Pension Benefit Plans	(34,366)	(2,196)
	<b>393,953</b>	<b>368,188</b>
Net unamortized actuarial gain	(11,803)	1,513
Valuation allowance	5,800	2,994
	<b>387,950</b>	<b>372,695</b>
Less:		
Provisions in Reserves and Balance Sheet	(91,895)	(92,253)
<b>Employee Related Liabilities to be recovered in the future</b>	<b>296,055</b>	<b>280,442</b>
<b>Waste Management Facilities liabilities:</b>		
Open and Closed landfill sites	65,148	71,420
Less:		
Provisions in Reserves	(1,249)	(1,189)
<b>Waste Management liabilities to be recovered in the future</b>	<b>63,899</b>	<b>70,231</b>
<b>Total Liabilities to be recovered in the future</b>	<b>359,954</b>	<b>350,673</b>

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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.

## Outstanding Internal Loans

Internal borrowing from Reserves reduces reliance on external debenture borrowings which, in turn, reflects favourably on the City's Credit Rating. It also provides Council with an alternative financial tool in dealing with Capital budget pressures.

Borrowing from a reserve is permitted only if the analysis of the reserve's funds indicates excess funds are available and the use of these funds will not impact the reserves current operations. As at December 31, 2020, the total principal outstanding for internal loans from reserves was \$28.9 M with annual repayments of \$4.8 M and maturities ranging from 2020 to 2032. Appendix "B" to Report FCS21063 provides a detailed summary of all outstanding internal loans from reserves. In 2020, \$6.4 M of loans have been fully amortized, while three new loans for total of \$4.2M were added, representing a decrease of \$561 K in the annual repayment amount.

## **ALTERNATIVES FOR CONSIDERATION**

N/A

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

### **Community Engagement and Participation**

Hamilton has an open, transparent and accessible approach to City government that engages with and empowers all citizens to be involved in their community

### **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.

### **Culture and Diversity**

Hamilton is a thriving, vibrant place for arts, culture, and heritage where diversity and inclusivity are embraced and celebrated.

### **Our People and Performance**

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

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**APPENDICES AND SCHEDULES ATTACHED**

Appendix “A” to Report FCS21063 – 2020 Reserves Detail Report with 2019 Comparative Figures and 2021-2023 Projections

Appendix “B” to Report FCS21063 – Internal Loan from Reserves Summary

Appendix “C” to Report FCS21063 – Neonatal Interfacility Transfers Reserve Policy

Appendix “D” to Report FCS21063 – Community Paramedicine Long-Term Care Reserve Policy

MZ/dt