



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

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	September 22, 2022
SUBJECT/REPORT NO:	2021 Reserve Report (FCS22065) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Marcin Zukowski (905) 546-2424 Ext. 2162
SUBMITTED BY:	Brian McMullen Director, Financial Planning, Administration and Policy Corporate Services Department
SIGNATURE:	

RECOMMENDATION(S)

- (a) That the 2021 Reserve Report and the 2021 Reserves Detail Report with 2020 Comparative figures and 2022-2024 Projections attached as Appendix “A” to Report FCS22065, be received;
- (b) That the National Housing Strategy Co-Investment Fund Reserve Policy attached as Appendix “C” to Report FCS22065, be approved and that the reserve be established subject to the terms outlined in the Policy;
- (c) That reserve Capital Projects – Hamilton (108035) and Roads, Bridges & Traffic Capital Reserve (108041) be closed and remaining funds in the total amount of \$22,407.30 be allocated to the Unallocated Capital Levy Reserve (108020);
- (d) That reserve Computer Replacement Program (110015) be renamed to IT Asset Management Reserve;
- (e) That the matter respecting the Business Improvement Area (BIA) Contribution – Closure of Year End Reserve, as recommended in the Report PED20161, be considered complete and removed from the Outstanding Business List of the General Issues Committee.

EXECUTIVE SUMMARY

The purpose of Report FCS22065 is to present Council with a detailed summary of the status of the City of Hamilton’s reserves as of December 31, 2021 in comparison to the 2020 year-end balance, as well as, projections for the years 2022 to 2024. The 2022 to 2024 forecast is based on budgeted transfers to and from the reserves, as well as, other known requirements including anticipated income and investment activities.

On June 1, 2022, S&P Global Ratings raised the City of Hamilton’s credit rating from ‘AA+’ to ‘AAA’ maintaining a stable outlook. The City’s reserve position continues to ensure that the City remains in a strong net creditor financial position, 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, 2020 and 2021, as well as, projected balances for December 31, 2022, 2023 and 2024.

Tax and Rate Supported Reserves, Obligatory Reserves and the Hamilton Future Fund totalled \$1,293 M at December 31, 2021, representing a \$140 M, or 12.2%, increase over the 2020 balance of \$1,153 M. A significant portion of this increase is the result of 2021 Development Charge (DC) collections exceeding DC Capital financing requirements by \$87 M, an increase in the Federal Gas Tax Reserve of \$46 M, as well as, the 2021 Tax Supported Operating Budget surplus of \$34 M. The overall increase was partially offset by draws on Rate Supported Reserves of \$29 M. The balance of the changes is detailed in Appendix “A” to Report FCS22065.

The overall reserve balance for 2022 is forecasted to decrease by \$166 M, or 12.8%, from \$1,293 M in 2021 to \$1,128 M in 2022 based on current commitments. The decrease is primarily driven by draws from Rate Supported Reserves of \$52 M, Stabilization Reserves in the amount of \$49 M, specifically a decrease in the Tax Stabilization Reserve of \$36 M and a decrease in the COVID-19 Emergency Reserve of \$13 M and a decrease in Obligatory Reserves of \$57 M from decreases in Parkland Dedication Reserve of \$20 M, Safe Restart Agreement (SRA) Reserve of \$21.0M and Federal Gas Tax Reserve of \$74 M which are partially offset from DC collections exceeding DC Capital financing by \$56 M.

**Table 1
Overall Reserve Position**

	Balance Dec.31, 2020	Forecast Dec.31, 2021	Forecast Dec.31, 2022	Forecast Dec.31, 2023	Forecast Dec.31, 2024
	\$	\$	\$	\$	\$
Tax Supported Reserves	458,988,743	476,042,857	419,842,313	458,788,070	503,026,407
Rate Supported Reserves	164,977,178	135,707,319	83,486,368	94,688,810	102,261,014
Total Non Obligatory	623,965,921	611,750,176	503,328,681	553,476,880	605,287,421
Obligatory Reserves	470,579,253	617,917,714	560,378,699	606,628,135	670,709,672
Sub-total Before Future Fund	1,094,545,174	1,229,667,890	1,063,707,380	1,160,105,015	1,275,997,093
Hamilton Future Fund Reserves	58,466,387	63,847,910	64,129,910	65,753,910	68,446,910
Total Reserves	1,153,011,561	1,293,515,800	1,127,837,290	1,225,858,925	1,344,444,003

*Note: Anomalies due to rounding

Through Report HSC19048(b), Accessing Capital Repair Funds National Housing Strategy Co-Investment Fund CityHousing Hamilton, Council approved the development of a funding agreement between the City of Hamilton and CityHousing Hamilton (CHH) for the provision of funds to meet CHH's annual debt repayment obligations under the Canada Mortgage and Housing Corporation's National Housing Strategy Co-investment Fund. It is recommended through Recommendation (b) to Report FCS22065 that a City reserve be established to manage the payments for those annual provisions.

Through Report FCS22065 staff seeks approval to close two reserves (Capital Projects – Hamilton (108035) and Roads, Bridges & Traffic Capital Reserve (108041)) and transfer the remaining balances of \$22 K to the Unallocated Capital Levy Reserve (108020).

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 that 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 minimize the use of 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 June 1, 2022, S&P Global Rating Services (S&P) raised the City’s credit rating from ‘AA+’ to ‘AAA’ maintaining a stable outlook. The increase was the result of S&P revising its assessment of the institutional framework for Canadian municipalities to “extremely predictable and supportive” from “very predictable and balanced”. In the formal review of the Canadian municipal institutional framework, S&P’s upward revision reflects their assessment that Canadian municipalities have demonstrated resilient budgetary performance during 2008 financial crisis and, more recently, the COVID-19 pandemic. S&P noted that with support from upper levels of government during the pandemic, Canadian municipalities’ finances fared much better than expected in 2020 and into 2021 as the pandemic unfolded.

Debt Indicators

As at December 31, 2021, the City had total debt outstanding of \$348 M (excluding Mortgages and Lease Purchase Agreements). Total approved debt for the City is \$517 M for 2022 and forecasted \$1,062 M for 2023, including previously approved debt still to be issued. This number is expected to increase with forecasts showing potential approved debt outstanding of \$1,245 M in 2024. The amount of actual debt outstanding may be less because of timing in debenture issuance, delay in project closings or project deferrals.

The significant 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

	2020	2021	2022(f)*	2023(f)	2024(f)
Approved Debt Outstanding (excluding Mortgages and Lease Purchase Agreements) (\$M's)	341	348	517	1,062	1,245
Debt per Capita (\$)	581.04	595.93	875.07	1,776.94	2,095.55
Debt per Capita Year over Year (% Change)	-16%	3%	47%	103%	16%
Debit to Reserve Balance	30%	27%	46%	87%	93%

* (f) is forecast

***Note: Anomalies due to rounding**

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

The 2021 Reserve Report (Report FCS22065) 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 Canada Community Building Fund Agreement (CCBF)).

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 2021 Reserve Report and the 2021 Reserves Detail Report, which is attached as Appendix “A” to Report FCS22065.

ANALYSIS AND RATIONALE FOR RECOMMENDATION(S)

2021 Actual Activities

The overall reserve position increased by \$140 M, or 12.2 %, from \$1,153 M in 2020 to \$1,288 M in 2021. The following factors drove the year-over-year increase:

- (a) increase of \$140 M, which was largely attributed to a \$87 M increase in 2021 Development Charge collections relative to capital financing requirements;
- (b) \$46 M increase in the Canada Community Building Fund due to one-time increase in Federal Gas Tax funding in 2021; and
- (c) the 2021 Tax Supported Operating Budget surplus of \$34 M.

The overall increase was partially offset by draws on Rate Supported Reserves of \$29 M.

Through Recommendation (b) to Report FCS22065 staff are seeking approval to establish a National Housing Strategy Co-Investment Fund Reserve for the purpose of fulfilling the funding agreement with CityHousing Hamilton approved through Report HSC19048(b) for the annual debt obligations with the Canadian Mortgage and Housing Corporation’s National Housing Strategy Co-Investment Fund – Repair and Renewal Stream.

Recommendation (c) to Report FCS22065 seeks approval to close two reserves (Capital Projects – Hamilton (108035) and Roads, Bridges & Traffic Capital Reserve (108041)) and transfer the remaining balances of \$22 K to the Unallocated Capital Levy Reserve (108020).

Reserve Capital Projects – Hamilton (108035) with a December 2021 balance of \$1,463.21 is a one-time reserve established by combining the reserves of the former City of Hamilton. With the completion of the terms of the forgivable loan with Canadian Football Hall of Fame, this reserve now has a minimal balance and is proposed for closure.

Reserve Roads, Bridges & Traffic Capital (108041) with balance of \$20,944.09 relates to grants received in 2006 and 2008 under the Provincial Move Ontario and Municipal Road and Bridge Infrastructure Investment Programs. As the funds have been almost fully allocated to roads and bridges capital programs over the years, staff is proposing the closure of this Reserve.

Recommendation (d) seeks approval of renaming Computer Replacement Program Reserve (110015) to IT Asset Management Reserve which better reflects the scope of intended use of the funds and includes the management of a range of IT assets including IT infrastructure equipment and software.

Through Report PED20161, Business Improvement Area (BIA) Contribution to Operating Budget Grant Program Update, Council approved the establishment of a new reserve with any unused funding due to COVID-19 restrictions from the 2020 Operating Budget contribution to BIA. The report recommended that staff report back on any unused amounts remaining along with closure of the reserve at the end of 2021. Since the expected surplus was not realized, the new reserve was not required and this item is recommended for removal from the Outstanding Business List of the General Issues Committee through recommendation (e) to Report FCS22065.

Table 3 to Report FCS22065 summarizes the overall reserve activity through 2021 and position as of December 31, 2021 by reserve type.

Table 3
OVERALL RESERVE POSITION
2021 ACTIVITY RESERVE GROUP (\$ MILLIONS)

	Tax Supported Reserves	Rate Supported Reserves	Obligatory Reserves	Future Fund Reserves	Total Reserves
Balance - January 1, 2021	\$459.0	\$165.0	\$470.6	\$58.4	\$1,153.0
Add:					
Interest Earned	10.7	6.6	11.1	1.7	30.1
Provisions to Reserve	103.4	0.2	11.7	0.0	115.3
Program / Capital Surpluses	16.2	0.4	3.4	0.0	20.0
Repayments of Internal Debt	11.7	0.0	0.0	7.9	19.6
Collections / Recoveries	8.3	0.0	133.5	0.0	141.8
Gas Tax Revenue	0.0	0.0	78.5	0.0	78.5
Special Levy-Ward Infrastructure Investment	13.4	0.0	0.0	0.0	13.4
Fees / Donations / Sales	1.1	0.0	15.1	0.0	16.2
Other Revenue	10.4	21.8	17.4	0.0	49.6
	175.2	29.0	270.7	9.6	484.5
Less:					
Capital Program Funding	33.9	52.5	84.8	0.0	171.2
Vehicle and Equipment Funding	25.3	0.0	0.0	0.0	25.3
borrowing to be Repaid	3.4	0.0	9.5	0.0	12.9
Program Phase-ins / Pilot / Grants	11.3	0.0	0.0	0.0	11.3
Property Purchases	1.9	0.0	3.5	0.0	5.4
Inter Reserve Transfers	2.2	0.0	0.0	0.0	2.2
Other Expenditures	80.1	5.8	25.6	4.2	115.7
	158.1	58.3	123.4	4.2	344.0
Ending Balance - December 31, 2021	\$476.1	\$135.7	\$617.9	\$63.8	\$1,293.5

*Note: Anomalies due to rounding

Reserve Balances

Over the last five years, the reserve balances have increased from \$950 M in 2017 to a balance of \$1,224 M as at December 31, 2021 (excludes Future Fund Reserves). The increase is primarily the result of increases in reserve provisions and overall collections, including Development Charges and Canada Community Building Fund from Federal Gas Taxes, offset by completion of major projects and capital financing charges.

Staff is forecasting a decrease in reserve balances of \$166 M (excludes Future Fund Reserves) over 2022, primarily due to a decrease in Stabilization Reserves, Rate Supported Reserves and decrease in Obligatory Reserves.

By the end of 2022, Stabilization Reserves balances are expected to decrease in the amount of \$49 M, specifically a decrease in Tax Stabilization of \$36 M and a \$13 M decrease in the COVID-19 Emergency Reserve and a decrease in Obligatory Reserves of \$57 M from decreases in Parkland Dedication Reserve of \$20 M, Safe Restart Agreement (SRA) Reserve of \$21.0M and Federal Gas Tax Reserve of \$74 M which are partially offset from DC collections exceeding DC Capital financing by \$56 M.

It is anticipated that the Safe Restart Agreement and COVID-19 Recovery Funding for Municipalities Program funding will be fully utilized by the end of 2022, as well as, the majority of City funds from the COVID-19 Emergency Reserve to offset pressures related to the pandemic response and recovery.

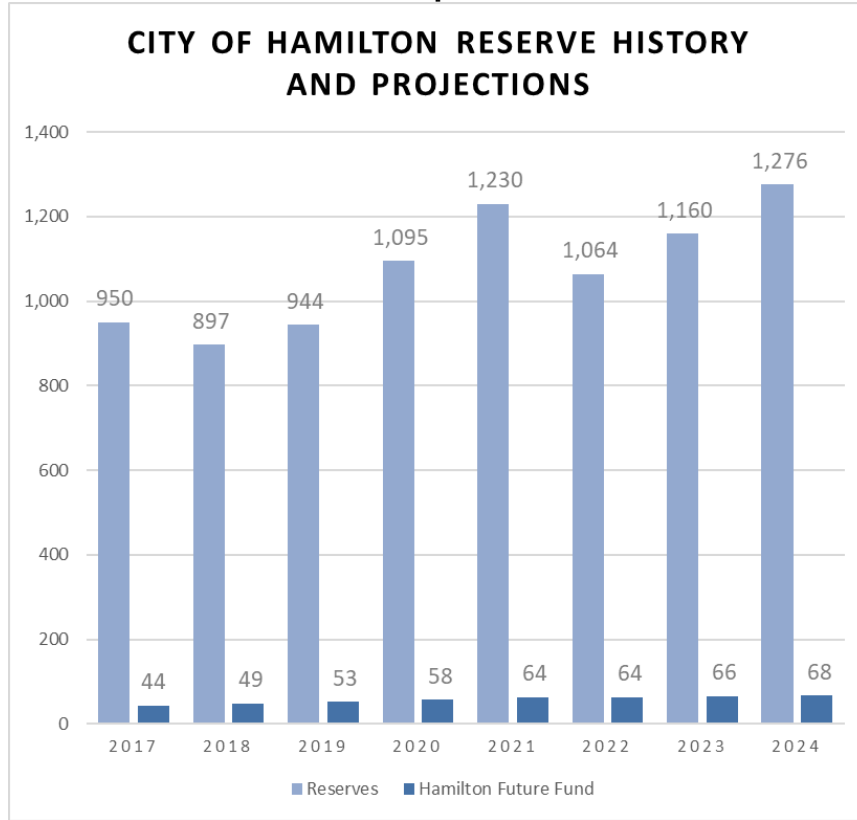
The DC reserves classified under Obligatory Reserves are a function of development activity and capital infrastructure construction. Where capital infrastructure is required in advance of the development, debt issuances will be closely monitored to ensure sustainability of the DC reserves. Other services (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, these types of services typically require fewer debt issuances.

Report FCS22040, presented at the May 19, 2022 meeting of the Audit, Finance and Administration Committee meeting, provides additional detail on the DC Reserves.

Both Tax Supported Reserves and Obligatory Reserves are forecasted to increase by 2024 where Rate Supported Reserves and Hamilton Future Fund Reserves are forecasted to remain flat through 2024.

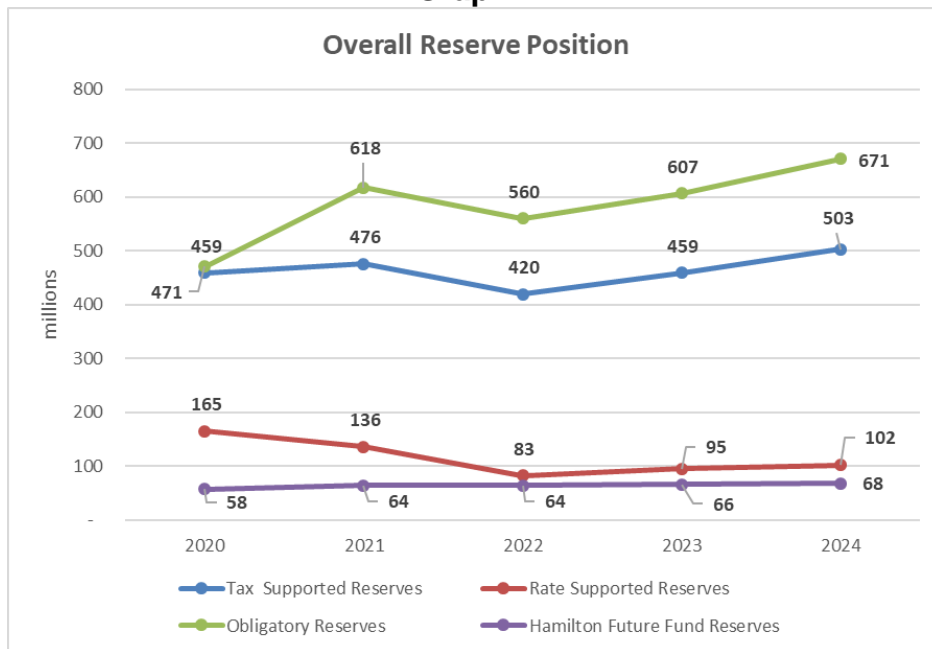
Graph 1 shows a five-year reserve history and 2022-2024 reserve projections for the City of Hamilton.

Graph 1



Graph 2 shows reserve history for 2020 and 2021 and reserve projections for 2022 to 2024 by reserve group.

Graph 2



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.

Sustainability of Reserves

The 2021 Reserves Detail Report, attached as Appendix “A” to Report FCS22065, 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 2022-2024;
- 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 2022:

110057- Roxborough Community Improvement Plan Area
112205- Winter Control
112270- Waste Management Recycling

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. Where reserves have been identified as not sustainable staff will work to develop strategies to ensure the long-term sustainability which could include increases to contributions to reserves through the annual budgeting process.

Outstanding Liabilities

The City provides certain employee benefits that require funding in future years which are currently estimated at \$397 M as at December 31, 2021. 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 \$95.5 M, or 24%, 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 \$301.2 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 \$77 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 \$378 M. Table 4 summarizes the estimated future liabilities by category.

Table 4

Estimate of Outstanding Liabilities (\$ 000's)		
	2021	2020
	\$	\$
Employee Benefits and Future Obligations:		
Sick Leave Benefit Plan	62,692	60,015
Long Term Disability Plan	44,975	43,676
Worker's Safety & Insurance Board Liabilities (WSIB)	132,478	128,967
Retirement Benefits	170,423	168,449
Vacation Benefits	27,031	27,212
Pension Benefit Plans	(40,311)	(34,366)
	397,288	393,953
Net unamortized actuarial gain	(9,596)	(11,803)
Valuation allowance	9,041	5,800
	396,733	387,950
Less:		
Provisions in Reserves and Balance Sheet	(95,511)	(91,895)
Employee Related Liabilities to be recovered in the future	301,222	296,055
Waste Management Facilities liabilities:		
Open and Closed landfill sites	78,272	65,148
Less:		
Provisions in Reserves	(1,275)	(1,249)
Waste Management liabilities to be recovered in the future	76,997	63,899
Total Liabilities to be recovered in the future	378,219	359,954

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.

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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, 2021, the total principal outstanding for internal loans from reserves was \$53.7 M with annual repayments of \$6.3 M and maturities ranging from 2022 to 2035. Appendix "B" to Report FCS22065 provides a detailed summary of all outstanding internal loans from reserves. In 2021, \$128 K of loans have been fully amortized, while 37 new loans for a total of \$6.3 M and three loans consolidated into the loan portfolio for total of \$21.9 M were added, representing an increase of \$28.2 M in the principal 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.

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" to Report FCS22065 – 2021 Reserves Detail Report with 2020 Comparative Figures and 2022 to 2024 Projections

Appendix "B" to Report FCS22065 – Internal Loan from Reserves Summary

Appendix "C" to Report FCS22065 – National Housing Strategy Co-Investment Fund Reserve Policy

MZ/dt