



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

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	June 15, 2023
SUBJECT/REPORT NO:	2022 Reserve Report (FCS23027) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Ailish Brooke (905) 546-2424 Ext. 6875
SUBMITTED BY:	Brian McMullen Director, Financial Planning, Administration and Policy Corporate Services Department
SIGNATURE:	

RECOMMENDATION(S)

- (a) That the 2022 Reserve Report and the 2022 Reserve Details Report with 2021 Comparative Figures and 2023 to 2025 Projections attached as Appendix "A" to Report FCS23027, be received;
- (b) That reserve Working Fund-General (112400) be closed and the balance be allocated to the Tax Stabilization Reserve (110046);
- (c) That \$1,980,213.10 be allocated from the Safe Restart Agreement Reserve (110054) to the COVID-19 Emergency Reserve (110053);
- (d) That the following reserves be closed:
 - i) Development Charges service component reserve Stormwater – Residential (110304);
 - ii) Development Charges service component reserve Stormwater – Non-Residential (110305);
 - iii) Development charges service component reserve Administrative Studies Community Based – Residential (110354);
 - iv) Development Charges service component reserve Administrative Studies Community Based – Non-Residential (110355);

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- v) Development Charges service component reserve Parking Services – Residential (110344);
 - vi) Development Charges service component reserve Parking Services – Non-Residential (110345);
 - vii) Development Charges service component reserve Airport Services – Residential (110342);
 - viii) Development Charges service component reserve Airport Services – Non-Residential (110343);
- (e) That reserve Federal Gas Tax Reserve (112213) be renamed to Canada Community-Building Fund Reserve;
- (f) That reserve Building Permit Fees Revolving Fund (104050) be renamed to Building Permit Revenue Stabilization;
- (g) That Hamilton Public Library reserve Accessibility, Renewal and Health & Safety Reserve (106013) be renamed to Capital Enhancement Reserve in accordance with the approved recommendation by the Hamilton Public Library Board on December 18, 2019.

EXECUTIVE SUMMARY

The purpose of Report FCS23027 is to present Council with a detailed summary of the unaudited balances of the City of Hamilton’s reserves at December 31, 2022 in comparison to the 2021 year-end balance and projections for the years 2023 to 2025. The 2023 to 2025 forecast is based on budgeted transfers to and from the reserves and other known requirements including anticipated income and investment activities.

Table 1 summarizes the overall reserve positions at December 31, 2021 and 2022 and projected balances for December 31, 2023, 2024 and 2025.

Tax and Rate Supported Reserves, Obligatory Reserves and the Hamilton Future Fund totalled \$1,369 M at December 31, 2022, representing a \$75 M, or 5.83%, increase over the 2021 balance of \$1,293 M. A significant portion of this increase is the result of 2022 Development Charge (DC) collections and recoveries exceeding DC Capital financing requirements by \$93 M.

The changes in reserve balances are detailed in Appendix “A” to Report FCS23027. The overall reserve balance for 2023 is forecasted to increase by \$90 M, or 6.59%, from \$1,369 M in 2022 to \$1,459 M in 2023 based on current commitments.

**Table 1
Overall Reserve Position**

	Actual 2021 (\$)	Actual 2022 (\$)	Projected 2023 (\$)	Projected 2024 (\$)	Projected 2025 (\$)
Tax Supported Reserves	476,042,857	470,780,720	484,180,717	529,704,531	574,074,409
Rate Supported Reserves	135,707,319	106,428,559	83,582,317	86,493,469	89,508,329
Total Non-Obligatory	611,750,176	577,209,278	567,763,034	616,198,000	663,582,738
Obligatory Reserves	617,917,714	726,396,963	824,261,453	902,797,189	985,861,273
Sub-total Before Future Fund	1,229,667,890	1,303,606,242	1,392,024,486	1,518,995,190	1,649,444,011
Hamilton Future Fund Reserves	63,847,910	65,327,933	67,126,489	68,972,419	71,880,141
Total Reserves	1,293,515,800	1,368,934,175	1,459,150,975	1,587,967,609	1,721,324,152

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: Not applicable.

Staffing: Not applicable.

Legal: Not applicable.

HISTORICAL BACKGROUND

Purpose of Reserves and Reserve Funds

The City maintains reserves and reserve funds to retain capital for future use. Reserves serve as general pools of capital that are often used to mitigate risk, maintain assets, support growth or meet unexpected expenses. Reserve funds are established for a specific purpose such as covering a foreseeable future expense or retaining monies for a particular goal, such as, defined capital projects or initiatives that involve substantial expense. Reserves and reserve funds share the purpose of easing the burden of the levy on the taxpayer for significant or infrequent expenses, minimizing credit market risk by accumulating financial resources for future capital needs, decreasing reliance on borrowing and offering a form of protection against unforeseeable situations, such as, catastrophic events, emergencies, etc. Reserves and reserve funds are leveraged to contribute to the City’s long-term financial stability and flexibility.

Reserves and reserve funds are reviewed by staff as part of the annual reserve report process to understand the intended use, relevancy, appropriateness and target annual allocation and balances. As part of the annual reserve report, reserves and reserve funds may be recommended for amendment, closure or consolidation.

Obligatory versus Discretionary Reserve Funds

Reserve Funds may be obligatory (required by legislation) or discretionary (voluntarily established by Council). Council has the authority to allocate funds from obligatory reserve funds subject to the restrictions of the applicable legislation. In contrast, Council has defined what constitutes an authorized use from discretionary reserve funds and there are processes that can be undertaken should Council seek to use funds for alternate purposes.

Monitoring of Reserve Program

A formal Performance Audit Report (2017-01) was conducted on the reserve program in 2017 which resulted in 13 recommendations through Report AUD17011. Through the data collection process for Report FCS23027, staff sought additional comments from reserve owners which will support future opportunities to consolidate the number of reserves in accordance with the recommendations of Report AUD17011 to increase effectiveness and efficiency of reserve administration activities. As of December 31, 2022, the City manages 202 active reserves (10 of which have been recommended for closure via recommendations to Report FCS23027). This includes 51 reserves with no forecasted expenditures between 2023 and 2025 which will be scrutinized over the next year for possible consolidation or closure.

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 13, 2022, S&P Global Ratings (“S&P”) maintained the City of Hamilton’s credit rating at ‘AAA’ with a ‘Stable’ outlook. In S&P’s published report, their outlook over the forecast period from 2022 to 2024, inclusive, reflected its expectation that the City will continue to implement prudent long term financial planning policies to maintain strong budgetary performance and that deficits (which result after taking into account capital revenues and expenditures, as well as, operating revenues and expenditures) would continue to be modest. Over the period 2020 to 2024, S&P expect an after-capital deficit of 3% of total revenues, on average. S&P anticipate that the debt burden will remain relatively stable. S&P noted their belief that Hamilton continues to show characteristics of a resilient economy, including diversification. S&P also noted the City’s strong liquidity position, which is remarked to be a key strength in Hamilton’s credit rating.

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Debt Indicators

At December 31, 2022, the City had total debt outstanding of \$302.5 M (excluding Mortgages and Lease Purchase Agreements). Total approved debt for the City is \$905 M for 2023 and forecasted \$1,201 M for 2024, including previously approved debt still to be issued. This number is expected to increase with forecasts showing potential approved debt outstanding of \$1,434 M in 2025. The amount of actual debt outstanding may be less because of timing in debenture issuance, delay in project completions 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, West Harbour Initiatives, Transit Infrastructure, as well as, significant DC 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**

	Actual 2021	Actual 2022	Projected 2023	Projected 2024	Projected 2025
Approved Debt Outstanding (excluding Mortgages and Lease Purchase Agreements) (\$)	348,062,825	302,527,900	904,558,032	1,201,038,196	1,434,322,967
Debt per Capita (\$)	596	512	1,514	1,987	2,346
Debt per Capita Year over Year (% Change)	3%	-14%	196%	31%	18%
Debt to Reserve Balance	27%	22%	62%	76%	83%

Note: 2021 Actual Debt Per Capita has been restated compared to Report FCS22065.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

The 2022 Reserve Report (Report FCS23027) is prepared in accordance with City of Hamilton Reserve Policy – Administration of Financial Reserves and Reserve Funds and relevant legislation and agreements (e.g. the *Municipal Act, 2001*, the *Development Charges Act, 1997*, the *Building Code Act, 1992* and the *Canada Community Building Fund Agreement (CCBF)*).

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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 2022 Reserve Report and the 2022 Reserves Detail Report, which is attached as Appendix “A” to Report FCS23027.

ANALYSIS AND RATIONALE FOR RECOMMENDATION(S)

2022 Actual Activities

The overall reserve position increased by \$75 M, or 5.83 %, from \$1,293 M in 2021 to \$1,369 M in 2022. The following factors contributed to the year-over-year increase:

- (a) A \$93 M excess of 2022 DC collections and recoveries relative to capital financing requirements.

Report FCS23035, Development Charges Reserves Status Report as of December 31, 2022, provides additional information on the DC Reserve activities through 2022.

The impacts on DC collections of the *More Homes Built Faster Act, 2022 (Bill 23)* have not yet been factored into the DC Reserves forecasting as the Act was proclaimed on November 28, 2022. In addition, due to the uncertainty arising from the *More Homes Built Faster Act, 2022 (Bill 23)*, staff did not utilize the authority in the DC Reserve Policy (FCS13035) which permits staff to change projects planned to be debt funded to be direct reserve funded if funds are sufficient. These two factors combined leads to forecasted DC Reserve balances that are higher than they will be once a fulsome review of the *More Homes Built Faster Act, 2022 (Bill 23)* is complete. Report FCS22085 Bill 23, *More Homes Built Faster Act, 2022* as it relates to the *Development Charges Act*, addresses staff initial considerations related to the future impact on DC collections. Staff continues to assess the implications of the *More Homes Built Faster Act, 2022 (Bill 23)* and will be providing a separate report back to Council this summer.

- (b) A \$18 M increase in the Parkland Dedication Reserve due to historically high collections as a result of the increase in land values during 2022.

Report FCS23041, Parkland Dedication Reserve Status Report as of December 31, 2022, provides additional information on the Parkland Dedication Reserve activities through 2022.

- (c) A \$29 M decrease in the Rate Supported Reserves as a result of capital project expenditures exceeding funding.

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Table 3 to Report FCS23027 summarizes the overall reserve activity through 2022 and position as of December 31, 2022 by reserve type.

**Table 3
Overall Reserve Position
2022 Activity Reserve Group**

	Tax Supported Reserves	Rate Supported Reserves	Obligatory Reserves	Future Fund Reserves	Total Reserves
Opening Balance - January 01, 2022	476,042,857	135,707,319	617,917,714	63,847,910	1,293,515,800
Add:					
Interest Earned	11,439,873	4,933,963	15,065,894	1,297,609	32,737,339
Transfers to Reserves	82,173,992	27,395,410	873,096	-	110,442,498
Collections	7,611,384	266,805	105,667,237	-	113,545,425
Gas Tax Revenue	-	-	36,981,557	-	36,981,557
Other Receipts	66,966,815	4,723,804	48,106,519	182,413	119,979,552
	168,192,064	37,319,981	206,694,303	1,480,023	413,686,371
Less:					
Capital & Operating Expenditures	172,657,755	66,598,746	99,011,839	-	338,268,340
	172,657,755	66,598,746	99,011,839	-	338,268,340
Ending Balance - December 31, 2022	471,577,166	106,428,554	725,600,178	65,327,933	1,368,933,831

Note: Anomalies due to rounding

Reserve Balances

Over the last five years, the reserve balances have increased from \$897 M in 2018 to a balance of \$1,304 M as at December 31, 2022 (excludes Hamilton Future Fund Reserves). The increase is primarily the result of increases in reserve provisions and overall collections, including DCs, Canada Community Building Fund from Federal Gas Taxes and Parkland Dedication offset by completion of major projects and capital financing charges.

Staff is forecasting a moderate increase in reserve balances of \$87 M over 2023 (excludes Hamilton Future Fund Reserves), primarily due to an increase in Obligatory Reserves and Tax Supported Reserves which is offset by a decrease in Rate Supported Reserves. By the end of 2023, Rate Supported Reserve balances are expected to decrease in the amount of \$23 M, specifically, a decrease in the Wastewater Improvement Subsidy Reserve of \$14 M. Obligatory Reserves are forecasted to increase by \$98 M driven primarily by an increase in DCs Reserves of \$103 M in 2023.

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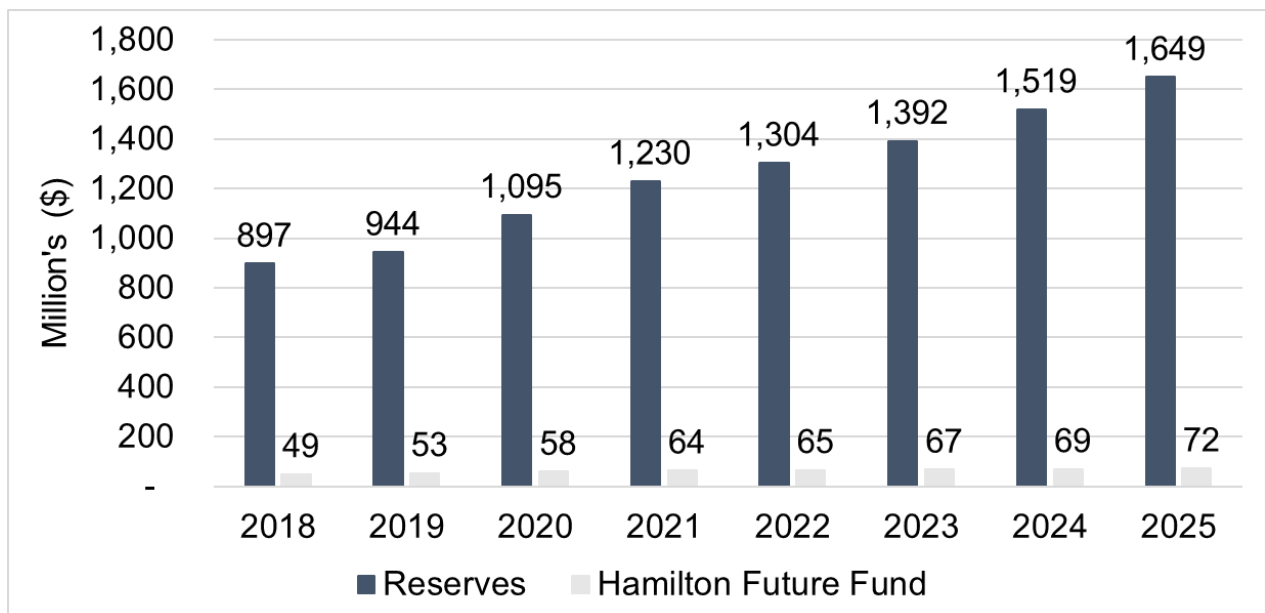
The DC reserves, classified as Obligatory Reserves, are a function of development activity and capital infrastructure construction. Where capital infrastructure is required in advance of the development, debt issuances will be closely monitored to ensure sustainability of the DC reserves. Other services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

The impacts of the *More Homes Built Faster Act, 2022 (Bill 23)* have not yet been reflected in reserve forecasts. Report FCS23035, is planned to be presented at the June 15, 2023 meeting of the Audit, Finance and Administration Committee meeting and provides additional details on the DC Reserves. Staff continues to assess the implications of the *More Homes Built Faster Act, 2022 (Bill 23)* and is planning to present a separate report at the June 14, 2023 meeting of the General Issues Committee.

Tax Supported Reserves, Obligatory Reserves and Hamilton Future Fund Reserves are expected to increase by 2025, while Rate Supported Reserves are expected to decrease by 2025.

Graph 1 shows a five-year reserve history and 2023-2025 reserve projections for the City of Hamilton.

**Graph 1
Reserve History & Projections**



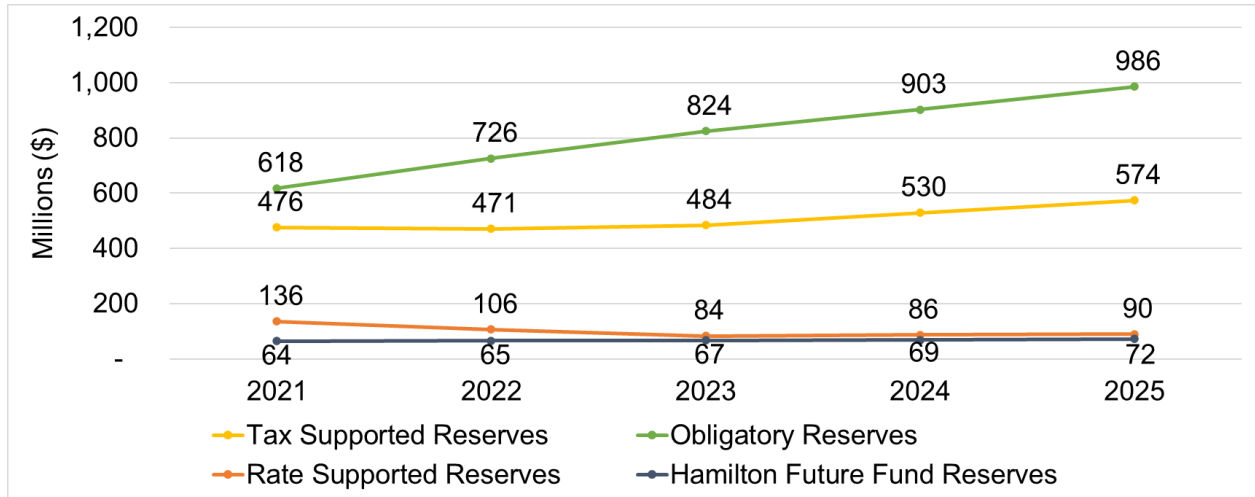
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Graph 2 shows the reserve history for 2021 and 2022 and reserve projections for 2023 to 2025 by reserve group.

**Graph 2
Overall Reserve Position**



Sustainability of Reserves

The 2022 Reserves Detail Report, attached as Appendix “A” to Report FCS23027, 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 2023-2025;
- 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 December 2022:

- 110025 – Vehicle Replacement Reserve
- 100031 – Hamilton Fire Department – Equipment Replacement Reserve
- 110022 – Hamilton Paramedic Service – Vehicle Replacement Reserve
- 112205 – Winter Control Reserve
- 112270 – Waste Management Recycling
- 112271 – Waste Management Facilities-Replace\Upgrade Reserve

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The sustainability of reserves continues to be assessed. Approaches to addressing reserve sustainability vary depending on the nature and purpose of the reserve. Staff will work to ensure long-term sustainability of the above-noted reserves that have been identified as not sustainable which may include increases to contributions to reserves through the annual budgeting process.

Outstanding Liabilities

There are obligations of the City which exist in addition to the amounts accumulated in reserves as detailed below. The details presented are draft based on the City's unaudited financial statements.

The City provides certain employee benefits that require funding in future years which are currently estimated at \$412 M as at December 31, 2022. 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 \$101 M, or 22%, 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 \$311 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 \$84 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 \$393 M. Table 4 summarizes the estimated future liabilities by category.

**Table 4
Draft Estimate of Outstanding Liabilities (\$ 000's)**

	2021	2022
	(\$)	(\$)
Employee Benefits and Future Obligations:		
Sick Leave Benefit Plan	62,692	65,388
Long Term Disability Insurance	44,975	46,742
Worker's Safety & Insurance Board Liabilities	132,478	164,562
Retirement Benefits	170,423	172,675
Vacation Benefits	27,031	26,928
Pension Benefit Plans	(40,311)	(18,338)
	397,288	457,957
Net unamortized actuarial gain	(9,596)	(59,699)
Valuation allowance	9,041	13,285
	396,733	411,543
Less:		
Provisions in Reserves and Balance Sheet	(95,511)	(100,846)
Employee Related Liabilities to be recovered in the future	301,222	310,697
Waste Management Facilities liabilities:		
Open and Closed landfill sites	78,272	83,511
Less:		
Provisions in Reserves	(1,275)	(1,306)
Waste Management liabilities to be recovered in the future	76,997	82,205
Total Liabilities to be recovered in the future	378,219	392,902

Outstanding Internal Loans

Internal borrowing from reserves reduces reliance on external debenture borrowings which reflects favourably on the City's credit rating and provides Council with an alternative financial tool to manage budgetary pressures. Internal borrowing from a reserve should only be permitted when analysis of the reserve's funds indicates excess funds are available and the use of these funds will not impact the reserves' forecasted operations.

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At December 31, 2022, the total principal outstanding for internal loans from reserves was \$63.47 M with annual repayments of \$7.36 M and maturities ranging from 2023 to 2046. Appendix “B” to Report FCS23027 provides a detailed summary of all outstanding internal loans from reserves. In 2022, \$2.79 M of loans have been fully amortized, while 17 new loans, for a total of \$18.86 M, were approved. These factors, combined with annual repayments, resulted in an increase of \$9.81 M in the overall principal outstanding amount.

Reserve Closures

As of December 31, 2022, the City manages 204 active reserves. This includes 56 reserves with no forecasted expenditures between 2023 and 2025.

In accordance with the recommendations of Report AUD17011, Report FCS23027 is recommending the closure and consolidation of nine reserves.

Staff recommends the closure of the Working Fund-General Reserve (112400) and that the remaining funds be allocated to the Tax Stabilization Reserve (110046) via Recommendation (b) to Report FCS23027. The purpose of the Working-Fund General Reserve is to provide positive cash balances during times when cash flows are low and to fund unbudgeted deficits in various programs. This purpose is not substantially different from the purpose of the Tax Stabilization Reserve and is a prime candidate for consolidation in accordance with the recommendations of Report AUD17011.

Staff recommends that \$1,980,213.10 of unrestricted interest earned be allocated from the Safe Restart Agreement Reserve (110054) to the COVID-19 Emergency Reserve (110053) via Recommendation (c) to Report FCS23027. The amount owing to the Government of Ontario, \$5,874,810.22, will remain in the Safe Restart Agreement Reserve (110054) until such time as the funds are returned to the Province or alternate use is approved. Staff is awaiting direction from the Government of Ontario regarding the return of unused Safe Restart Agreement Funds.

Staff recommends the closure of 8 reserves via Recommendation (d) to Report FCS23027 as follows:

- The DC service component reserves Stormwater – Residential (110304) and Stormwater – Non-Residential (110305). DC collections for Stormwater service components are distributed between combined and separated sewer system area reserves as per the direction to split stormwater DCs through the 2019 DC By-law Study process via Recommendation (i) to Report FCS23027. As a result, reserves 110304 and 110305 have been allocated to the combined and separated sewer system DC Reserves (110350, 110351, 110352 and 110353) in accordance with the methodology in the 2019 DC Study and are no longer required.

- The DC service component reserves Administrative Studies Community Based – Residential (110354) and Administrative Studies Community Based – Non-Residential (110355). These reserves were established as part of the 2019 DC By-law process in anticipation of legislated changes that did not occur. DC collections for all administrative studies have been consolidated to reserves 110324 and 110325. Therefore, reserves 110354 and 110355 are no longer required.
- The DC service component reserves Parking Services – Residential (110344), Parking Services – Non-Residential (110345), Airport Services – Residential (110342) and Airport Services – Non-Residential (110343). The City adopted By-law 22-158, Community Benefits Charges By-law on June 16, 2022 with an effective date of September 18, 2022. In accordance with the requirements in Section 37 (51) 1 of the *Planning Act, 1990*, as amended, the balances in the City’s Airport and Parking DC Reserves were transferred to the City’s Community Benefits Charge Transition Reserve (110501) which is part of the Community Benefits Charges Special Account required under Section 37(42) of the *Planning Act, 1990*, as amended. As a result, these reserves are no longer required.

Renamed Reserves

Staff recommends that the Federal Gas Tax Reserve (112213) be renamed to the Canada Community-Building Fund Reserve via Recommendation (e) to Report FCS23027. The Canada Community-Building Fund is a permanent source of funding for local infrastructure priorities provided by the Federal government. This funding stream was previously called the Federal Gas Tax but was renamed in 2021.

Staff recommends that the Building Permit Fees Revolving Fund (104050) be renamed to Building Permit Revenue Stabilization via Recommendation (f) to Report FCS23027 as a more accurate description of the purpose of the reserve.

Staff recommends that the Hamilton Public Library reserve Accessibility, Renewal and Health & Safety Reserve (106013) be renamed to the Capital Enhancement Reserve via Recommendation (g) to FCS23027. This recommendation is in alignment with the Hamilton Public Library Board’s approved recommendation on December 18, 2019.

ALTERNATIVES FOR CONSIDERATION

Not applicable.

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 FCS23027 – 2022 Reserves – Detail Report with 2021 Comparative Figures and 2023 to 2025 Projections

Appendix “B” to Report FCS23027 – Outstanding Internal Loans from Reserves Summary as at December 31, 2022

AB/dt