



The Corporation of the City of Cornwall
Regular Meeting of Council
Report

Department: Financial Services
Division: Finance
Report Number: 2020-305-Financial Services
Prepared By: Paul Scrimshaw, Accounting Manager and Deputy Treasurer
Meeting Date: June 29, 2020
Subject: 2019 Annual Report on the Status of City Reserves

Purpose

To provide Council with information on the status of the City's reserves and reserve funds as at December 31, 2019.

Recommendation

That Council receive Report 2020-305-Financial Services on City's reserves and reserve funds as at December 31, 2019.

Financial Implications

Reserves and reserve funds are established by Council to assist with long-term financial stability and are a key element of the City's long-term fiscal strategy.

Reserve levels are planned to provide a measure of financial flexibility. Reserves are used for operating and capital requirements, to react to budget shortfalls or the financial impact of significant unexpected issues in a timely manner.

Reserves are also used to smooth out spending requirements so that there are no significant shifts in taxation or water and wastewater rate charges each year.

A properly balanced approach to the planning and use of reserves and reserve funds is considered good financial management.

The City's Long Term Financial Plan (LTFP) recommended that the Reserves and Reserve Funds Policy be reviewed to determine if balances are adequate, if the need for particular reserve or reserve fund exists, or if new reserves or reserve funds are required. Staff will undertake this policy review over the next two years.

Strategic Priority Implications

Reserves and reserve funds support Council's vision to align spending with identified priorities that delivers valued services and programs to the community.

Background / Discussion

The Reserves and Reserve Fund Policy ensures that annual reporting to Council will occur at the same time that the City's Financial Statements are presented. The annual report is to provide an update on the balances of reserves, how they compare to the targeted funding levels established in the Policy, and recommend to Council a plan to work towards achieving the targeted balances.

The Policy identifies four categories for reserves and reserve funds:

- I. Operating Reserves
- II. Capital Reserves
- III. Restricted Reserves (Municipal Funding)
- IV. Restricted Reserves (Funded Externally)

The following chart summarizes reserve balances in each of the four categories:

	2018 Year End	2019 Year End	Targeted Balance	2020 Estimated	Target Year
Operating Reserve	\$8,577,342	\$3,722,286	\$6,945,783	\$4,299,834	3-5 years*
Capital Reserve	(\$813,765)	\$506,595	\$4,655,002	\$1,280,539	5-7 years
Restricted Reserves (Municipal Funded)	\$42,228,227	\$44,285,758	\$44,093,952	\$45,174,012	Individual targets **
Restricted Reserves (Funded Externally)	\$6,750,228	\$11,299,060	n/a	n/a	n/a

*In 2019, the City settled two large outstanding assessment appeals relating to distribution centers. The City budgeted \$1,500,000 in the 2019 budget for tax refunds. The actual amount of tax refunds including the distribution centers was \$6,993,169. To cover the shortfall in tax refunds \$3,294,085 was utilized from the Tax Stabilization Reserve and \$1,899,263 from the Working Reserve to be repaid over the next 4 years (2020-2023).

** Four of the twelve Restricted Reserves (Municipal Funding) have met their target balance. Three of the reserves do not have a defined target balance.

The City has individual reserves or reserve funds as sub-categories that make up each of the above noted categories. Detailed information can be found in the 2019 Reserve Schedule attached to this report. The 2019 Reserve Schedule provides information on reserve and reserve fund balances as at December 31, 2019, based on Council approved transfers to, and draws from, made during the year. The transfers made to and from reserve and reserve funds are based on amounts approved as part of the 2019 or prior year budget processes, or approved by Council throughout the fiscal year.

Operating Reserves

Operating Reserves consist of discretionary reserves that have been established to provide flexibility and liquidity to protect against the consequences of unexpected events, losses of income, and large unbudgeted expenditures.

The proposed targeted balance for Operating Reserves is 10% of the previous year's tax levy that is used to support the Corporation's operating budgets.

The ending balance of Operating Reserves at December 31, 2019 was \$3,722,286; with a target balance of \$6,945,783. At December 31, 2019, the City's Operating Reserves are below target primarily due to the utilization of reserves to fund tax refunds.

In 2019, the net change to these reserves was a net decrease of \$4,855,056. Contributions to and from Operating Reserves are outlined in the 2019 Reserve Schedule. At Year End, Council approved the transfer the 2019 surplus of \$277,075 to the Working Reserve (\$251,356) and the Tax Stabilization reserve (\$300,000), and from the Winter Control Reserve (\$274,281).

In 2020, budgeted contributions to these reserves include \$254,335 to the Working Reserve for repayments and future projects/initiatives, \$500,000 to the

Working Reserve as the first installment to repay tax refunds, \$190,000 to the Medical Recruitment Reserve, and \$45,000 to the Election Reserve for the 2022 Municipal election. Additionally, there are budgeted withdrawals of \$175,000 for medical recruitment initiatives, \$170,000 for Planning Studies (Zoning Bylaw and Development Charges update), and a carryforward withdrawal of \$496,630.

The target balance for Operating Reserves in 2020 is \$7,198,144. The estimated balance at December 31, 2020 is \$3,869,991.

Capital Reserves

Capital Reserves are monies set aside for the repair and major maintenance costs of capital infrastructure and for large capital expenditures; such as, facility upgrades or road reconstruction. Capital Reserves consist of sub-categories which includes Equipment and Vehicles, Recreation Facilities, Municipal Buildings, Fire Equipment, Land Ambulance, Waste Management, Land Reserve, and Road Infrastructure.

The proposed targeted funding level for the Capital Reserves is 50% of the previous year's amortization cost for the Corporation's tangible capital assets (excluding Water and Wastewater).

The ending balance of Capital Reserves at December 31, 2019 was \$506,595; the targeted balance is \$4,655,002. Amalgamated, these funds are underfunded by \$4,148,407.

In 2016, the City repurchased land in the Business Park from Boundary Properties at a cost of \$2.2M. This purchase put the Land Reserve in a negative balance, the reserve will be repaid when the lands are sold.

In 2019, the net change to these reserves was a net increase of \$1,320,360. Contributions to and from Capital Reserves are outlined in the 2019 Reserve Schedule.

The City continues to make provisions for the replacement of assets and infrastructure. As examples, through the budget process, contributions are made to the Recreation and Municipal Facilities' Reserves by charging a per square foot leasing cost to departments; and, based on fleet use, City departments make contributions to the Equipment and Vehicles Reserve for future asset replacement.

The City's LTFP recommended that a contribution to reserves for a Capital Levy and Life-Cycle Costing be established to help fund asset replacement. The 2020



budget submission includes a contribution of \$348,100 (2019 \$159,820) for the Capital Levy and \$250,000 (2019 \$200,000) for Life-Cycle Costing.

The target balance for Capital Reserves in 2020 is \$5,003,401. The estimated balance at December 31, 2020 is \$1,523,131.

Restricted Reserves (Municipal Funding)

There are reserves that the Corporation has established and funded internally that are deemed to be restricted for certain uses.

These reserves are independent from one another and used to mitigate against the consequences of certain risks specific to their area.

Both the Water Works Reserve and the Wastewater Works Reserve maintain a healthy reserve balance to offset extraordinary and unforeseen expenditure requirements. At Year End, Council approved the transfer the 2019 surplus of \$671,087 for Water and Wastewater to the Water Works Reserve (\$442,737) and the Wastewater Works Reserve (\$228,350).

Annual contributions in the amount of \$250,000 have been made to the Water Works Reserve to assist with future improvements to the plant and linear infrastructure. This contribution continues in 2020.

A targeted balance for the Cornwall Area Housing Corporation (CAHC) Operating Reserve was not defined in the policy. Like the City, CAHC also completed an Asset Management Plan during 2016. CAHC is considering to undertake an analysis of reserves to establish targeted balances for both operating and capital. Currently, the balance of CAHC's operating reserve fund is \$3,170,100.

The City has also set up a reserve for the estimated future value of benefits for employees and a reserve that recognizes unfunded liabilities related to landfill closure and post-closure costs at the City's landfill site.

The liability for closure and post-closure costs at the landfill site is \$16,705,319. Currently, the balance of the Landfill Reserve Fund is \$0. The City undertook a study in 2019 to renew the assumptions and re-evaluate the capacity and remaining life at the landfill. This study provided the City with updated closure and post-closure costs. These updated calculations will assist in developing a financial plan for the closure of the landfill. It was recommended in the report from DFA Infrastructure International Inc., presented to Council at the meeting of January 13, 2020, that the City start contributing to the reserve in the amount of \$250,000 in 2020 and increasing contributions by \$250,000 each year to a

maximum annual contribution of \$2,500,000. The City did not include this contribution to the reserve in the 2020 budget.

The liability for estimated future benefit costs is calculated by the Workplace Safety & Insurance Board (WSIB). As a schedule 2 employer, it is common to establish a reserve based on a reasonable estimate of future payment requirements. WSIB has estimated the City's liability to be \$3,821,468. Currently, this reserve has a balance of \$2,068,404. Contributions of approximately \$190,000 are made to this reserve by City departments each year.

Restricted Reserves (Funded Externally)

There are also several reserves that are funded from senior levels of government or third parties for specific purposes that are defined by legislation or a municipal by-law. These program specific reserves/reserve funds are to be used for their identified purpose and have no defined target balances.

In 2019, the City received a one-time top up to its Federal Gas Tax allocation in the amount of \$2,951,947. At December 31, 2019, the Federal Gas Tax Reserve had a closing balance of \$5,276,940. For the most part, these funds are committed to prior years' on-going capital initiatives. At the time of this report, approximately \$895,000 remains uncommitted.

The Development Charges Reserve is an obligatory reserve fund set up for each service for which a development charge is collected. The development charge funds must be spent on the infrastructure projects for which they were collected. In 2019, the City collected \$834,791 in development charges. Included on this agenda is the annual report for the Development Charges Reserve Fund.

Document Title:	2019 Annual Report on the Status of City Reserves - 2020-305-Financial Services.docx
Attachments:	- Reserves Dec 31 2019.pdf
Final Approval Date:	Jun 25, 2020

This report and all of its attachments were approved and signed as outlined below:

No Signature found

Paul Scrimshaw - Jun 22, 2020 - 4:32 PM

Tracey Bailey - Jun 24, 2020 - 5:30 PM

Maureen Adams - Jun 25, 2020 - 7:38 AM