REPORT

2025 Budget Committee

Meeting Date: October 22, 2024

FROM:	Finance Department
DATE:	October 15, 2024
SUBJECT:	**Reserves and Reserve Funds Outlook**
LOCATION:	Town-wide

Town-wide

RECOMMENDATION:
That the staff report dated October 15, 2024, entitled *Reserves and Reserve Funds Outlook* from the Finance department, be received.

KEY FACTS:
The following are key points for consideration with respect to this report:

- Financial sustainability is one of Council's strategic goals. As part of a sustainable long-term financial plan, the town utilizes Reserves and Reserve Funds to accumulate funds for expected and unexpected obligations.
- Reserves and Reserve Funds provide flexibility over the long-term horizon, limiting financial risk and the cost of financing, while ensuring that statutory requirements are met and credit agency criteria are considered. The town's financial position contributes to the top credit ratings from S&P Global Ratings (AAA) and Moody's Investor Service (Aaa) maintained by Halton Region.
- Sufficient Reserve and Reserve Fund balances are imperative in the continued strong fiscal health of the town. During the annual budget process, Reserve and Reserve Fund balances are assessed and budgets are adjusted so the fund balances are maintained at sufficient levels.
- A long-term outlook must be taken when evaluating the financial health of the town. Capital and operating needs are reviewed based on Council's strategic priorities, master plans, infrastructure renewal requirements, and growth pressures. Identifying the needs of the town over the long term is important as it allows the town to plan for predictable and stable taxation increases in current and future years. It ensures future taxpayers will not face declines in services or unreasonable tax increases to deal with items deferred in the

present. It also helps ensure current taxpayers do not bear the full burden of funding items that will benefit future taxpayers.

- There are numerous pressures the town is facing over the coming years that are having an impact on the health of reserves and reserve funds. These include the impact of higher costs, legislative changes to growth funding tools, the continued evolution of asset management planning, and building climate resilient infrastructure.
- While the 10-year capital program as presented in the 2025 Capital Budget and Forecast is not fully funded in the long term, the town is well positioned to explore a variety of funding options to maintain reserves and reserve funds at sufficient levels over the long term. A key indicator of the town's strong financial position is the debt to reserve ratio, which is projected to be remain below the 1:1 target throughout the forecast period, contributing to the top credit rating of Halton Region.

BACKGROUND:

Reserves and Reserve Funds (R&RFs) established by Council are funds set aside from the town's net revenues to assist with mitigating the impact of unforeseen events, and for long-term financial planning to maintain a sound fiscal position for the town. The primary purpose of R&RFs is to accumulate funds for future needs, manage unforeseen circumstances, as well as to ensure adequate cash flows to meet financial obligations. The town's Reserve/Reserve Fund Procedure (F-FPC-004-001) provides further details on why each R&RF is established and how it is being used and monitored in accordance with legislative requirements and council's direction.

Reserves are established at council's discretion and set up for specific purposes. They are used to offset impacts and stabilize the operating and capital budgets. They typically cushion the impact of unexpected shifts in revenues and expenditures on the tax rate.

Reserve Funds are typically established through a by-law of council, or by a requirement of federal or provincial legislation (ex. *Development Charges Act*, *1997*), for a specific purpose and segregated from general revenues of the municipality to meet the financial requirements of a future event. Reserve funds are further sub-divided into discretionary and obligatory reserve funds.

Reserve and reserve fund balances are cyclical in nature and can fluctuate year over year based on spending needs. Town initiatives or capital projects can either be accelerated or deferred due to different factors; therefore, the projected balances can change as a result of rising costs in labour or materials, personnel increases, development activity, strategic priorities, and other uncontrollable factors such as the COVID-19 pandemic and legislative changes.

Staff are in the process of reviewing the Reserve/Reserve Fund Procedure and plan to update it in 2025. This includes an assessment of risks and future needs, as well as associated target balances that contribute to the strategies for optimizing the value of the town's R&RFs.

This report includes a brief analysis of the town's R&RFs. Appendix A of this report includes the approved purpose for each R&RF and their 2025 projected balances.

CLASSIFICATIONS OF FUNDS

As detailed in the Reserve/Reserve Fund Procedure (F-FPC-004-001), the town has two major classifications for R&RFs.

Reserves and discretionary reserve funds:

1. Operating and program specific
2. Stabilization
3. Equipment and Building Maintenance
4. Capital
5. Discretionary reserve funds

Obligatory reserve funds:

1. Growth funding tools (GFTs)
    a. Development Charges (DC)
    b. Community Benefits Charges (CBC)
    c. Parkland Dedication
2. Building Enterprise
3. Provincial and Federal contribution reserve funds

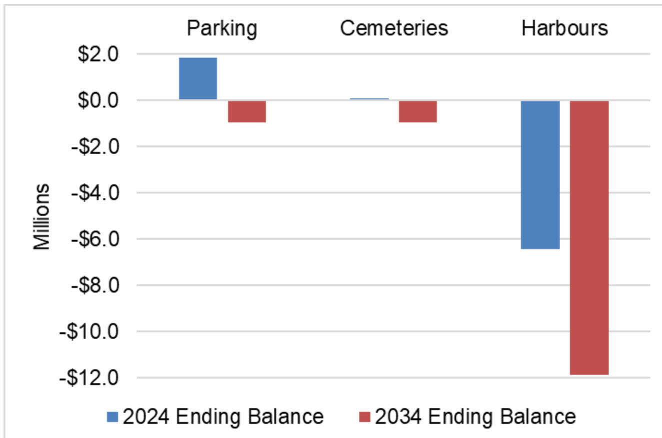
FINANCIAL OVERVIEW

Operating reserves

Operating reserves are used to mitigate operating budget fluctuations, offset extraordinary and unforeseen expenditures and revenue shortfalls, and minimize fluctuations in the tax levy. There are eight active operating reserves that are approved by council, with a projected ending balance of $14.9 million in 2025. The most significant operating reserves are the Storm Event Reserve ($5.5 million), the Municipal Accommodation Tax Reserve ($3.7 million) and the Election Reserve ($2.7 million). The current reserve balances are healthy and achieving targets that should minimize the impact of unexpected shifts in revenues and expenditures. For example, funding from the Storm Event Reserve is available to fund the recovery from the major rainfall events in the summer of 2024, minimizing any impact on the town's operational results or on the tax levy in 2025.

Program-specific Reserves & Reserve Funds

Program-specific R&RFs are used for the town's self-supported programs. It is town policy that the Cemetery, Harbour, and Parking programs are self-supported and are not funded by the tax levy. Each program has a reserve or reserve fund that is funded by surpluses in operations and provides one-time operational funding as needed and capital funding for maintenance and expansion of operations. The projected status of these funds is shown below:



The self supported programs are projected to be in negative positions over the forecast period. While the cemetery reserve and parking reserve fund are currently positive, they are projected to go negative in the next two years.

A Harbours Master Plan is planned in 2025, which will be followed by a business plan. The business plan will provide an opportunity to explore partnerships to address some of the financial pressures with the Harbours program. The future of Bronte Outer Harbour operations remains undetermined and this certainty will assist with a long-term strategy for Harbours. The 2025 proposed budget recommends debt financing for dock replacement and Harbour fees have been increased to support these future debt charges.

The pandemic had a major impact on Parking operations, which strained the reserve. However, annual surpluses are projected for 2024 and over the forecast period. The major impact on the Parking Reserve Fund is for significant capital expenditures such as the Church Street Parking Garage rehabilitation and the potential future parking provision as part of the Downtown Cultural Hub on the former post office site. Adding to these pressures, parking was removed as an eligible service under the *Development Charges Act, 1997* (DCA), limiting the amount that can be collected from development to fund growth-related infrastructure to amounts collected under the new Community Benefits Charge (CBC). The town-wide Parking Strategy and further studies are forthcoming, including the Downtown Parking Supply Strategy, to plan for the future.

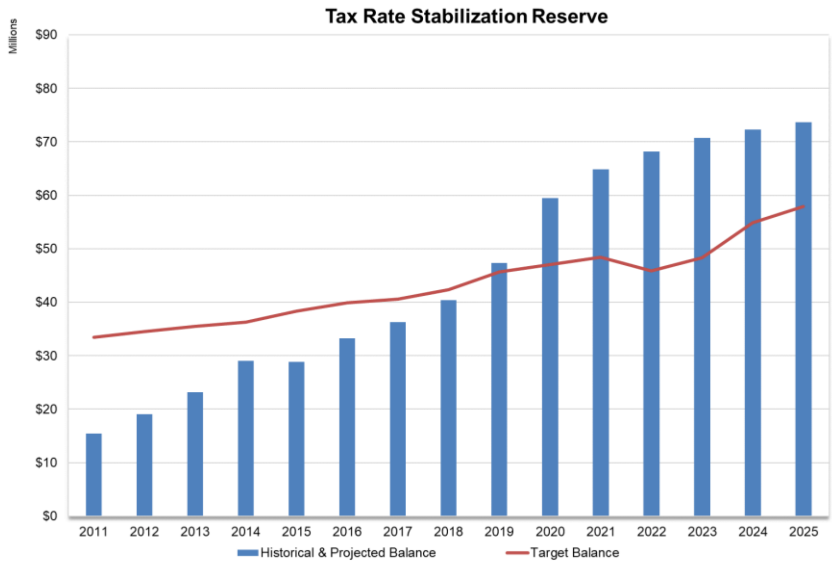
Stabilization reserves

Stabilization reserves include Tax Rate Stabilization ($73.6 million), Insurance ($1.1 million), and Hydro Operations ($20.8 million), projected to total $95.6 million in 2025. Similar to operating reserves, stabilization reserves are intended to offset extraordinary and unforeseen expenditures, cyclical expenses and help to minimize fluctuations in the tax levy.

Tax Rate Stabilization Reserve (TRS)

Purpose: To provide protection against unforeseen major emergency expenditures and to provide a source of working capital for the town
Revenue Source: Operating fund surplus, capital gains from the investment program
Key Performance Indicator (KPI) Target: • Two months of own source revenue (16.7%) • 2024 Projected Balance of $72.3 million (target $58 million)
Key Points: • Trending upwards from 2012 to present • $7.2 million transferred out between 2011-2022 from TRS reserve to operating to stabilize tax levy • Provincial support during COVID-19 pandemic limited need for TRS

The current reserve balance is trending healthy and has achieved the KPI target. As shown in the below chart, the balance was below target until recently. It is important that the tax rate stabilization remain healthy in the event of major, unexpected events. For example, the 2008 financial crisis and subsequent economic downturn had a significant impact on operations. The tax rate stabilization reserve was used to limit the overall impact on tax rates, and the reserve balance declined to just over $2 million at the time.



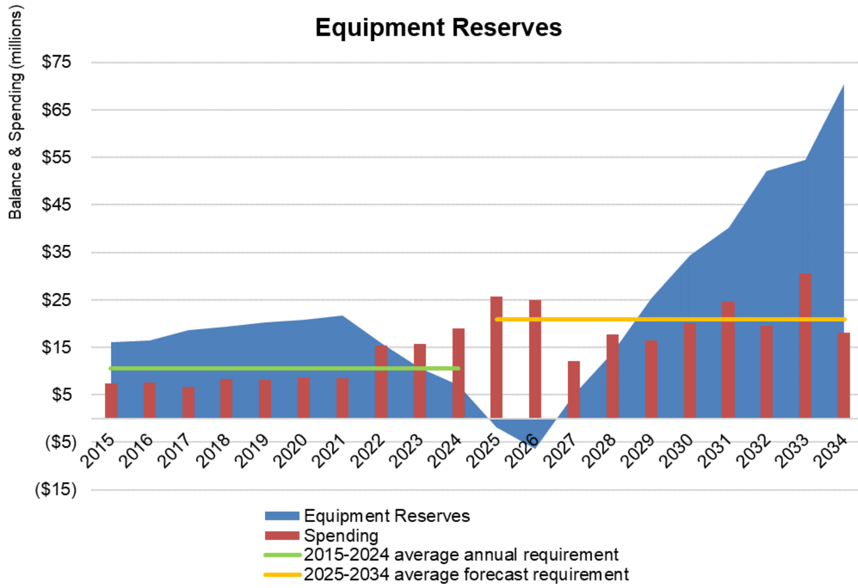
Asset specific Reserves and Reserve Funds (equipment and building)
The town has asset specific R&RFs to maintain equipment and buildings in a state of good repair in conjunction with the town's Asset Management Plan (AMP).

Equipment reserves are subdivided into program specific reserves that serve the needs for the following types of vehicles and equipment:

- Fire Equipment
- Transit Equipment
- Roads & Parks Operations Equipment
- Parking Equipment
- OMSR Equipment
- Recreation and Culture Equipment

Purpose: To finance departmental maintenance and replacement of existing vehicles and equipment to maintain assets in a state of good repair
Revenue Source: Primarily transfers from program related operating budgets (tax and fee supported) and proceeds from disposal of equipment
Key Performance Indicator (KPI) Target: • Shall be adequate to cover replacement of assets at the end of useful life • A minimum balance to cover unexpected capital requirements and rising costs
2025 Action: • Increases to the annual transfer from the operating budget to reserves for Transit ($1.0M), and Roads & Parks Operations ($300K) are included in the 2025 budget due to the major increase in costs for fleet.

The total balance for equipment reserves has declined rapidly in recent years due to the rise in the cost of vehicles and will go negative in 2025 and 2026 as shown in the below chart. The below chart illustrates this with the increased spending forecast during the 2025-2034 period compared to the spending (net of project closures) during the 2015-2024 period. The projected reserve balance includes increased transfers from the operating budget to reserves for transit ($1M) and roads and parks operations ($300K) in the 2025 Budget.



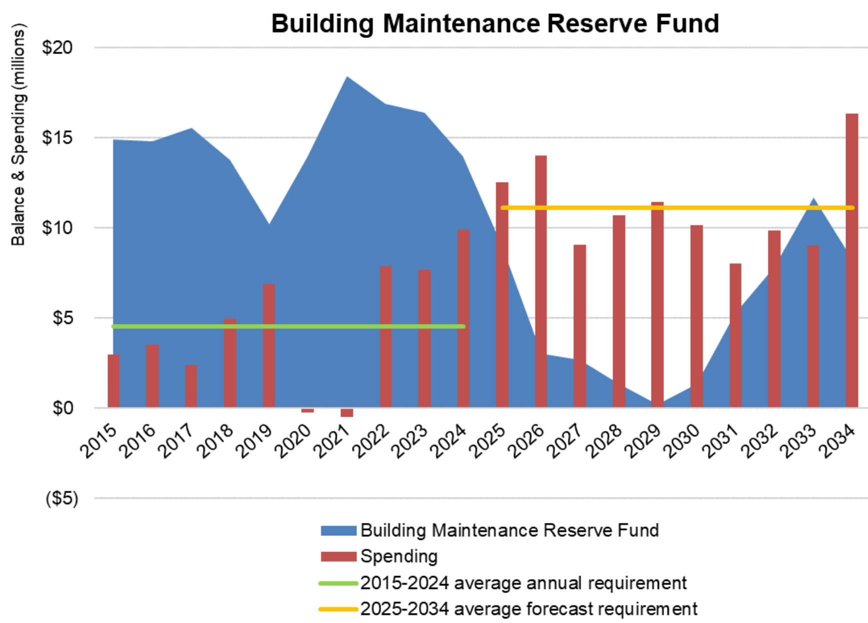
Detailed review of the vehicles scheduled for replacement takes place each year, and needs are prioritized based on the condition of assets. The transit, fire, and roads and parks reserves will go negative in coming years, but return to positive over the medium and long term. Increases to transfers to reserves have been included in the budget to ensure that the reserves return to sufficient levels. When reserves are negative, in accordance with the town's Reserve/Reserve Fund Procedure, they are charged interest based on the town's investment rate of return, so internal borrowing between reserves takes place.

While the projected 2034 ending balance is large based on historic levels, this is primarily due to the transit equipment reserve. New expansion buses are planned over the forecast period, and as these buses are added, an associated increase to the annual transfer to reserve is implemented so that the reserve is adequate to fund future replacements. Therefore, while the reserve is building up, significant funds will be required beyond the forecast period for replacements.

The town's ***Building Maintenance Reserve Fund*** is set aside for the maintenance and replacement of town-owned facilities.

<u>Purpose</u>: To finance building repair and maintain assets in a state of good repair
<u>Revenue Source:</u> Budgeted transfers from program related operating budgets (tax and fee supported)
<u>Key Performance Indicator (KPI) Target:</u> • Ability to fund Building requirements based on the Asset Management Plan

The Building Maintenance Reserve Fund stays positive; however, average spending has increased significantly compared to the spending (net of project closures) in the prior 10 years as shown in the below chart. This signifies the ongoing aging of town facilities and highlights the importance of the AMP as a result. As asset management levels of service work continues in 2025, an assessment of the transfers to this reserve fund and state of good repair requirements will both be assessed.

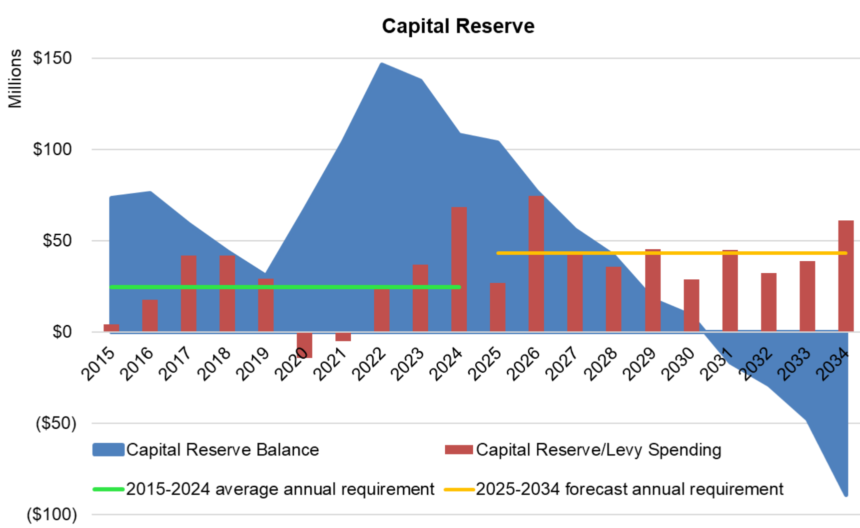


Capital Reserves

Capital reserves consist of eight reserves projected to total $114.2 million in 2025, among which General Working Capital Reserve represents nearly the entirety of the balance ($104 million). The combination of capital reserves and the annual capital levy serve as a primary source of funding for infrastructure renewal projects and ensure that funding is available to replace assets based on the town's AMP requirements. In addition, capital reserves and the annual capital levy are the primary source of funding for program initiatives and make up the funding gap for the town share of growth-related capital projects that are not recoverable through growth funding tools (discussed in next section), such as exemptions.

<u>Purpose</u>:
To support the town's long-term capital financing plan and to minimize tax rate impact of major capital expenditures
<u>Revenue Source:</u>
Funded through transfers from operating (tax supported), land sales.
<u>Key Performance Indicator (KPI) Target:</u>
• Capital reserves are maintained at sufficient levels to minimize risk, support future initiatives, and mitigate unknown contingencies
<u>Key Points:</u>
• As the primary source of funding for town infrastructure, there is the potential need to support any infrastructure gaps identified through asset management, as well as legislative changes associated with growth management (DCs) • Capital reserves include DC exemption reserves, which are used for growth-related projects. This is the funding of DCs from the general capital reserve for developments that are exempt in accordance with the DCA.

The chart below illustrates the total general working capital reserve balance, the annual spending (net of project closures) from the reserve for 2015 to 2024 and the forecasted spending for 2025 to 2034. The green line shown in the chart represents a 10-year average annual requirement from the capital reserve of $25 million from 2015 to 2024 versus the orange line forecasting $43 million from 2025 to 2034. This increased annual spending is resulting in a declining reserve that is projected to be negative in 2031.The capital reserve balance can fluctuate greatly depending on capital needs in a given year as well as one-time revenues. The balance increased significantly from 2019 to 2022 primarily due to land sales and projects postponed or closed during the COVID-19 pandemic.



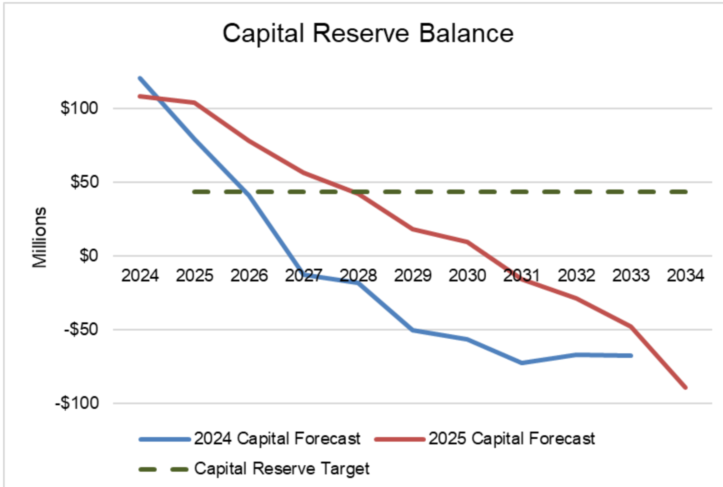
GFOA recommends that capital reserves be at least the equivalent of one year's worth of the average capital requirements. The annual capital levy provides a significant amount of funding each year ($48.1 million in 2025) to finance tax-supported debt charges and fund the capital program. However, based on average capital needs, funding is also required from the capital reserve each year ($27 million in 2025). Currently, the capital reserve balance is in a strong position with a 2024 ending balance projected at $108 million, however, over the next ten years (2025-2034), the balance will rapidly decline to a negative position in 2031, with a low of negative $89.5 million in 2034.

The declining capital reserve balance is a result of a number of pressures that can be seen in the 2025 Capital Budget and Forecast, including:

- Asset Management needs such as bridges, culverts, and stormwater related infrastructure
- Environmental sustainability related infrastructure such as transit electrification
- Rising costs for all types of construction in recent years

Asset management needs continue to develop. In accordance with provincial regulation, by mid-2025 the town must include all assets in the Asset Management Plan (AMP), including proposed levels of service and a fulsome financing strategy to address any gap in funding. However, the pressures relate not only to asset management needs, but also significant strategic initiatives and the town's share of growth infrastructure. The town will continue to actively explore and pursue external funding opportunities and advocate for additional support from other levels of government to assist with funding pressures.

The capital program as presented will require additional funding over the forecast period through increases to the capital levy and/or new revenue sources. As shown in the below chart, the capital reserve forecast has improved in comparison to the 2024 Forecast, despite a lower starting point due to greater than expected spending in 2024. This is in part due to adjustments in the timing of major capital projects and reductions in scope, along with leveraging revenue sources. One reason for the improvement to the capital reserve outlook is the utilization of additional dividend income from OEC to fund the debt costs for the debentures to be issued for the replacement and relocation of the Central Library as part of the Downtown Cultural Hub project. The projected 2025 capital reserve balance is healthy, and the town is well positioned to explore a variety of funding opportunities that could address the financial pressures over the forecast period. These could include additional funding from OEC and MDC, new revenues through a stormwater fee, and funding from other levels of government.



Discretionary Reserve Funds

The Post-employment Liability Reserve Fund represents the largest balance under the Discretionary reserve funds, of which the 2025 ending balance is projected to be $29.2 million. The purpose of this reserve fund is to cover WSIB liabilities, as well as post employment benefits (healthcare/dental/vacation) for active and retired employees. This reserve fund receives transfers from the operating budget annually and has set a target to be able to fully utilize the fund and cover the liability. The town periodically obtains an actuarial report that forecasts the obligation, which can be used to measure the funding adequacy of the reserve fund. Based on the most recent report, the reserve fund is sufficient to fund 80% of future obligations and increased contributions would be needed to fully fund future obligations.

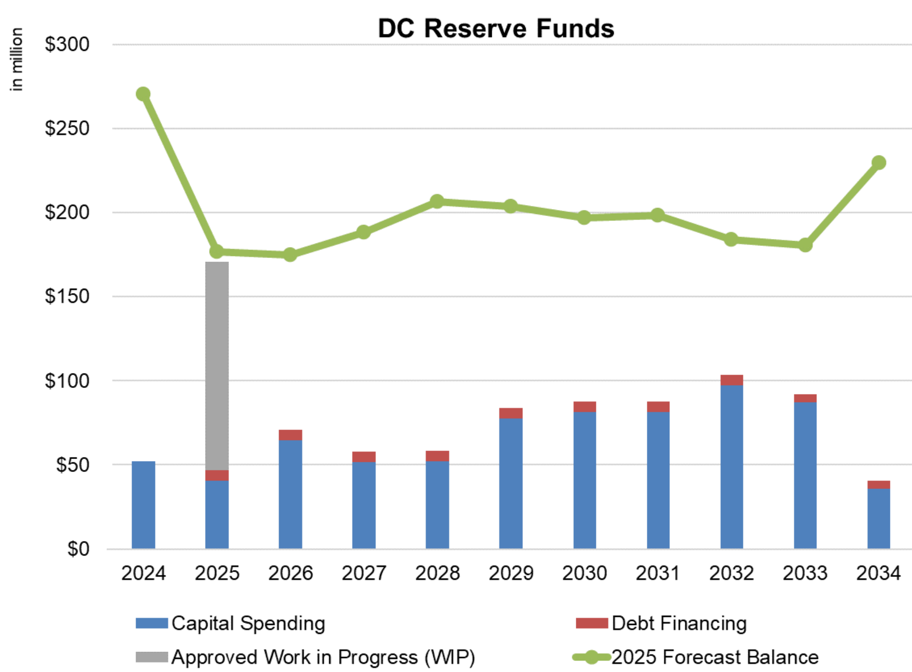
Growth Funding Tools

Growth funding tools include the following three major types of financial tools to address the capital needs and recover costs due to growth. Classified as obligatory reserve funds, these are restricted by legislation and municipal by-laws, which stipulate that revenues received are used for prescribed purposes and required to be segregated from the general reserves of the town.

a. Development Charges

Purpose: To fund growth-related land and infrastructure for services eligible under the *Development Charges Act, 1997* (DCA)
Revenue Source: • DC collections from residential and non-residential development and redevelopment
Key Performance Indicator (KPI) Target: • The ability to fund growth-related land and infrastructure required to maintain service levels as the town grows
Key Points: • Legislative changes have reduced DC collections in recent years. As of August 2024, the previously required phase-in of the town's DC by-law ($8.7 million) and required DC rate freeze ($15.7 million) have resulted in over $24 million in lower revenue. • Bill 185 has removed certain changes that were introduced through Bill 23 that will limit future losses. Exemptions for affordable residential units are now in force. • 60% of the DC Roads balance to be allocated at the beginning of the year

The below chart shows the 2024 projected ending balance along with the 10-year forecasted balance (2025-2034), including the spending by year and the DC debt financing cost related to the Sixteen Mile Community Centre and Library project.



While the 2024 projected ending balance is reaching $270.3 million, there is $123.8 million in approved commitments from prior years. Note that obligatory reserve funds can only be transferred to capital projects after expenditures have occurred. Over the 2025-2034 forecast period, the DC forecast balance is growing due to the shift of major transportation projects beyond the forecast period. In comparison to the 2024 forecast, $152 million in transportation DC spending is now planned to be delivered beyond the 10-year period, contributing to the high DC balance. Collections for capital projects can result in the build up of DC reserve funds; however, there are significant projects outside the forecast period that will result in a decline in DC reserve funds.

The town's programs are undertaking service area master plans, which will identify the land and infrastructure needed to maintain service levels as the town grows. These master plans will incorporate updated growth forecasts, and the associated capital projects required in the coming years. As a result, the 2025 Capital Forecast is mostly based on previous master plans and growth expectations to 2031 and will be updated to account for new land and infrastructure requirements along with current growth forecasts over the longer term during the 2026 Budget. This will also lead to a new DC Background Study to ensure that collections are sufficient to fund the long-term forecast.

While the province has now rolled back some of the changes to legislation that were resulting in revenue losses, DC revenue risk remains. Beginning in June, exemptions for affordable residential units came into force. While there have been no exemptions to date, the magnitude of these exemptions may be significant, and depending on how the province plans to keep municipalities whole, could result in a significant impact to DC collections used to pay for growth related projects. Further, one outstanding regulation is the prescription of land for certain services as ineligible costs, which would shift those costs away from DCs and to other sources such as capital reserves.

b. Community Benefits Charges (CBC)

Purpose: To recover growth-related capital costs of facilities and services if those costs are not already being collected for through DCs or parkland dedication
Revenue Source: • Collections under section 37 of the *Planning Act* (CBC, bonusing). Collections are limited to 4% of land value based on the *Planning Act*.
Key Performance Indicator (KPI) Target: • The ability to fund growth-related land and infrastructure that is not being collected for through DCs and parkland dedication.
Key Points: • 60% of the CBC balance to be allocated at beginning of the year • Projects to be prioritized due to the limit of 4% cap

• Bill 23 implemented changes to the *Planning Act* which include the exemptions from CBCs for affordable units and credits for existing buildings on a redevelopment site.

c. Parkland dedication

<u>Purpose</u>: To fund the acquisition of land to be used for park or other public recreational purposes, including the erection, improvement or repair of buildings and the acquisition of machinery for park or other public recreational purposes
<u>Revenue Source:</u> • Collections from development and redevelopment under section 42 of the *Planning Act*
<u>Key Performance Indicator (KPI) Target:</u> • 2.2 hectares per 1,000 people to the horizon year of 2031
<u>Key Points:</u> • Bill 23 has put in place upper limit caps for parkland dedication, significantly reducing the land and payment in lieu that can be achieved through this tool. • As of August 2024, these limits have resulted in $6.7 million in lower payment in lieu. • Bill 23 implemented changes to the *Planning Act* which include the exemptions from parkland dedication for affordable residential units. • Bill 23 – 60% of the balance to be allocated at the beginning of the year

The proposed changes to parkland dedication in Bill 23 cap the amount of land that the town can require to be conveyed or paid-in-lieu. Furthermore, the proposed changes will also reduce the maximum alternative rate by half for residential development. Although the full impact of these changes is difficult to quantify due to varying types and locations of growth, a high-level estimate within the town's Strategic Growth Areas projects that the town could lose up to 80% on given sites. Altogether, this will make it extraordinarily challenging for the town to achieve the KPI target identified in the Parks Plan 2031 without other funding sources or support from other levels of government.

Building Enterprise Reserve Fund

The Building Enterprise reserve fund provides funding for operating and capital expenditures of the Building department, including the retention of staff in periods of low building activity. The current reserve fund balance is healthy and achieving targets that should minimize the impact of unexpected shifts in revenues and expenditures. While the 2024 ending balance is projected to reach $51 million, it is important to remember that unexpected impacts on operations can be significant. For example, following the 2008 financial crisis and subsequent economic downturn, the Building Enterprise reserve fund was fully utilized, and internal borrowing from the tax rate stabilization reserve was needed.

Federal and Provincial Funding Programs

Reserve funds related to federal and provincial funding programs include the Canada Community-Building Fund (CCBF) and Ontario Gas Tax. These programs provide annual allocations by the senior levels of government to support municipalities based on agreement and criteria. There is a minimal balance is these reserves funds over the longer term, as funds received are used in the short-term in accordance with agreements.

a. CCBF

<u>Purpose</u>: To fund infrastructure investments through eligible capital projects within 19 categories established by the Government of Canada
<u>Revenue Source:</u> • Allocation of funding from the Government of Canada, administered through the Association of Municipalities of Ontario (AMO) on a per capita basis. CCBF currently provides $2.4 billion per year in funding across Canada (with scheduled 2% increases)
<u>Key Performance Indicator (KPI) Target:</u> • Allocation to be spent by end of year 5 from the receipt of funding
<u>Highlights:</u> • Annual prioritization of capital projects based on provision, project scope and eligibility

b. Ontario Gas Tax

<u>Purpose</u>: To fund public transit operations and infrastructure
<u>Revenue Source:</u> • Allocation of provincial gas tax received from Province of Ontario is determined by a formula of 70% based on transit ridership and 30% based on population as compared to all other eligible municipalities in the province.
<u>Key Performance Indicator (KPI) Target:</u> • Balance shall remain positive
<u>Highlights:</u> • Annual funding of a portion of the town’s transit operating budget • Annual prioritization of projects based on provision, project scope and eligibility

Debt Financing

Debt financing complements the funding of capital works and is used for specific initiatives to maintain overall financial sustainability. A municipality may issue new debentures provided that the financial charges related to outstanding debt will be within the annual debt repayment limit as prescribed by the Ministry of Municipal Affairs and Housing. The ministry sets this limit at 25% of own source revenues, which are primarily property taxes and user fees.

The town’s Corporate Debt policy further limits debt capacity levels, and the below table shows the debt capacity limits and status based on existing and proposed debt in the 2025 Capital Budget and Forecast.

Debt Policy	Debt Capacity Limit	2025 Forecast
Tax Supported Debt	6.25% own source revenue	5.0%
Total Corporate Debt	12% own source revenue	7.3%
DC Debt	25% average DC revenue	9.1%

In 2025’s budget, total debt charges (including capital lease payments) of $19.7 million will be incurred, which is 5.7% of own source revenues. With all approved and forecast debt financing, debt charges would reach a total of 7.3% of own source revenues in 2027, as seen in the chart above.

Previously approved debt that is unissued includes tax supported debt of $12.8 million to fund the Transit Facility Expansion to support charging infrastructure, and $2.9 million in self-supported debt for the replacement of Harbours dockage and dredging ($0.8 million) and the Parkade rehabilitation ($2.1 million). The 2025 Budget and Forecast include additional self supported debt for harbours dockage and dredging, along with debt for the Central Library, which is to be funded from the increased dividends from OEC.

Debt levels are closely monitored to ensure that a 1:1 debt-to-reserve financing ratio or better is maintained. The anticipated debt and funding of the capital forecast results in a debt to reserve ratio of 0.59:1 in 2025. While the ratio will increase to a high of 0.84:1 in 2027, it will average 0.66:1 over the forecast period. This is a positive indicator of the financial sustainability of the town and contributes to a high-quality credit rating.

COMMENT/OPTIONS:

Financial sustainability is one of Council’s strategic goals. It is through the long-term financial plan that future reserve and reserve fund requirements are determined, debt repayment levels are managed, and future operating and capital budget expenditures are planned. The Financial Control policy and related Reserve/Reserve Fund procedure, Corporate Debt policy, and Annual Budget policy aid in decision making and guide budget recommendations.

Over the years, the town has been in a sound financial position. Sufficient reserve and reserve fund balances are imperative in the town continuing its strong fiscal health. Each year, reserve and reserve fund balances are assessed to identify their adequacy based on forecasted needs, to ensure infrastructure is repaired and replaced when required, to provide a contingency for unanticipated expenditures, as a funding source for new program initiatives, and to maintain an appropriate debt-to-reserve balance ratio. As discussed above, staff are currently reviewing the

Reserve/Reserve Fund procedure to ensure that appropriate target balances are set and the value of the town's reserves and reserve funds is optimized.

It is important to take a prudent approach and use a long-term outlook when assessing the financial health of the town, which allows for proactive financial planning. Capital needs are a significant driver of reserve and reserve fund balances, and they must be planned for over the longer term to avoid major impacts to property taxes. While there has been a rise in reserve balances over previous years, in 2024 and over the forecast period spending is higher than annual revenues. The following financial pressures are having an impact on the financial outlook for the town over the coming years.

Rising Costs

The pandemic triggered major supply chain and inflationary pressures over the past years, which has negatively impacted current reserve and reserve fund levels. The town has increased transfers to various capital reserves and strategically used operating surpluses and additional investment income to help withstand higher costs. It is important that reserves and reserve funds are maintained at sufficient levels on a go forward basis to support the capital program and maintain service levels.

Climate Change and Action

The town declared a climate emergency in 2019 and has been active in implementing climate change policies and programs since 2005. The declaration established the importance of accelerating climate change action and these initiatives require appropriate funding to ensure success. Major initiatives over the coming years include the electrification of transit and greening of existing and new facilities. The town has submitted a grant application to the Zero Emission Transit Fund (ZETF) for electric charging infrastructure and the required transit facility expansion and will continue to explore funding opportunities available from other levels of government to support this important work.

Asset Management

Over the past several years, the town has been developing and implementing an asset management improvement program which is aligned with the requirements of ISO 55000 and Ontario Regulation 588/17 which includes additional aspects to be included in asset management plans such as levels of service, risk assessment, climate change considerations and performance measures. O. Reg. 588/17, Asset Management Planning for Municipal Infrastructure, outlines guidelines and expectations for the application of asset management principles for municipalities and identifies numerous key deliverables in a phased approach that municipalities must meet and include in future AMPs over the 2019-2025 timeframe.

By mid-2025, the town is required to have a financing strategy, including identifying any funding gaps, for the lifecycle activities required to achieve proposed levels of service. If there are funding gaps, decisions will need to be made to address these. The clear identification of levels of service and associated capital needs to maintain these levels of service will allow for a fulsome review of the adequacy of the capital levy and reserves, and identification of funding strategies if needed.

Growth Management

The town utilizes the growth funding tools (GFTs) of DCs, CBCs, and parkland dedication to deliver the land and infrastructure required to maintain service levels as the town grows, while minimizing the financial impact of growth on exiting residents and businesses. The town aims to ensure that “growth pays for growth”; however, there are legislative restrictions in the DCA and *Planning Act* that result in a cost to existing taxpayers.

Legislative changes have increased the cost of growth. New exemptions for affordable housing could have an impact on GFTs, along with already in force changes such as the DC rate freeze and parkland dedication caps. The province has not yet indicated how they will keep municipalities whole, which could result in delays in key infrastructure required due to growth or impacts to property taxes.

Conclusion

As a result of strong financial planning, reserve and reserve fund balances are currently at sufficient levels. There are a number of pressures on town finances, as discussed in this report, which result in a decline in R&RF balances over the 10-year forecast period. While the town does have debt capacity, it is important that the town limit reliance on debt and ensure that a 1:1 debt to reserve financing ratio or better is maintained, ensuring financial sustainability. The town has been successful in managing debt levels, with this ratio improving in comparison to the 2024 forecast and remaining below the 1:1 target throughout the forecast period, indicating the sound financial position of the town.

In accordance with financial policies, the town is committed to accountable and fiscally responsible financial management. R&RF levels will continue to be monitored and reviewed on an ongoing basis, and staff will continue to explore and present potential solutions to the pressures in the capital forecast. The town is well positioned to explore a variety of funding opportunities such as additional revenue from the OEC and MDC, new revenue sources such as a stormwater fee, along with continued advocacy to the province to keep municipalities whole as a result of Bill 23 and provide increased funding to municipalities.

CONSIDERATIONS:

(A) PUBLIC
N/A

(B) FINANCIAL
Reserves and reserve funds contribute to the strong financial position of the town. The towns reserves and reserve funds are healthy and fully fund the 2025 Budget.

(C) IMPACT ON OTHER DEPARTMENTS & USERS
N/A

(D) CORPORATE STRATEGIC GOALS
This report addresses Council's strategic priority:
Accountable government

(E) CLIMATE CHANGE/ACTION
N/A

APPENDICES:

Appendix A – Reserves and Reserve Funds Listing

Prepared by:
Alicia Li
Senior Financial Analyst, Development Financing & Investments

Matt Day
Manager, Development Financing & Investments

Recommended by:
Jonathan van der Heiden
Director, Finance and Deputy Treasurer

Submitted by:
Nancy Sully,
Commissioner, Corporate Services and Treasurer