
TO: GENERAL COMMITTEE

SUBJECT: CREATION OF NEW RESERVE AND RESERVE FUNDS

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SUBMITTED BY: DEBBIE MCKINNON, CPA, CGA, DIRECTOR OF FINANCE *Debbie McKinnon*

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GENERAL MANAGER OF COMMUNITY AND CORPORATE SERVICES

CHIEF ADMINISTRATIVE OFFICER APPROVAL: CARLA LADD, CHIEF ADMINISTRATIVE OFFICER *Carla Ladd*

RECOMMENDED MOTION

1. That staff be authorized to create the following development charges reserve funds that are required based on the updated Development Charges By-law 2014-108:
 - a) Water Services – Distribution Systems – Salem & Hewitt's Secondary Plan Areas (11-05-0515)
 - b) Water Services – Distribution Systems – Former City Municipal Boundary Areas (11-05-0517)
 - c) Water Services – Facilities Related Debt (11-05-0541)
 - d) Wastewater Services – Collection Systems – Salem & Hewitt's Secondary Plan Areas (11-05-0516)
 - e) Wastewater Services – Collection Systems – Former City Municipal Boundary Areas (11-05-0518)
 - f) Wastewater Services – Facilities Related Debt (11-05-0526)
 - g) Roads Related (11-05-0521)
 - h) Parking (11-05-0523)
 - i) Social Housing (11-05-0562)
2. That the descriptions be changed on the following development charges reserve funds, to better reflect their intended purpose as required by Development Charges By-law 2014-108:
 - a) Roads (11-05-0520) – formerly known as Roads & Related
 - b) Wastewater Services – Facilities (11-05-0525) – formerly known as Sanitary Sewers
 - c) Storm Water Drainage & Control Systems – Former City Municipal Boundary Areas (11-05-0530) – formerly known as Storm Water Mgmt
 - d) Water Services – Facilities (11-05-0540) – formerly known as Water
3. That staff be authorized to create the following reserve fund, in order to clearly identify capital contributions and monitor eligible growth-related expenditures as outlined in the Memorandum of Understanding and associated reporting requirements:
 - a) Capital Contribution (11-05-0587)
4. That staff be authorized to create the following reserve funds, to track discounts and exemptions provided to developers:

- a) Development Charge Discounts & Exemptions – Tax (11-05-0583)
 - b) Development Charge Discounts & Exemptions – Water (11-05-0584)
 - c) Development Charge Discounts & Exemptions – Wastewater (11-05-0585)
 - d) Development Charge Discounts & Exemptions – Parking (11-05-0586)
5. That staff be authorized to reallocate Reserve and Reserve Funds balances as at December 31, 2014 to accurately reflect opening balances based on the requirements of the Development Charges By-law 2014-108 and intended use of the Capital Contribution funding.

PURPOSE

6. This report is intended to incorporate changes from the updated Development Charges (DC) By-law, and adjust the City's reserves and reserve funds to reflect current and future growth management needs. These changes will allow for more transparent and streamlined reporting to Council and other stakeholders.

DEVELOPMENT CHARGES

7. On August 25, 2014 a new DC By-law, 2014-108, was passed, encompassing former municipal boundaries and Salem and Hewitt's Secondary Plan Areas. Included in the by-law is a complete listing of all categories of services for which development charges are imposed (Section 2 of the By-law). Some of the service categories in the DC By-law do not currently have assigned reserve funds, for the following reasons:
- a) Some services have now been designated as area-specific, in order to differentiate between former municipal boundary areas and Salem and Hewitt's areas
 - b) Some services have not had DC's imposed upon them previously, such as Parking and Social Housing, and were added to the 2014 DC Background Study and subsequent By-law
 - c) Some services have been separated into different categories due to their nature and complexity, whereas in the past they were accounted for as one category. Examples of these include Roads/Roads & Related, and Water and Wastewater Facilities/Facilities Related Debt
8. Establishing DC reserve funds to match the service categories in the DC By-law will be necessary in order to ensure the accurate accounting for expenses and their associated DC funding. It will also be necessary in order to comply with statutory reporting requirements, one of which requires the City to prepare an annual report identifying reserve balances, detailed transactions by project, temporary transfers between reserves, and interest revenues earned by each fund.
- a) To reflect the proper DC reserve balances at December 31, 2014, transfers between previous DC reserve funds and new funds will be required. From Water Services – Facilities (11-05-0540) to Water Services – Facilities Related Debt (11-05-0541) From Wastewater Services – Facilities (11-05-0525) to Wastewater Services – Facilities Related Debt (11-05-0526);
 - b) From Roads and Related (11-05-0520) to Roads Related (11-05-0521);
9. From Water Services – Facilities (11-05-0540) to Water Services – Distribution Systems – Salem & Hewitt's Secondary Plan Areas (11-05-0515); The DC By-law includes various discretionary discounts and exemptions. Reference can be made to sections 9 and 10 of the By-law for a complete listing. Because of their discretionary nature, the City has a responsibility to ensure that all discounts and exemptions are funded from City sources. It is important that the City establish a transparent approach for both capturing and funding the amount of discounts and exemptions that

are provided. The reserves are being recommended at this time in order to support a fund strategy that does not put undue pressure on rates but also ensure that the funds are available as required. The 2015 Business Plan will include provisions to transfer funds to these reserves based on anticipated development activity in 2015. Maintaining this information will also provide support for future decisions surrounding DC discounts and exemptions.

10. The DC Background Study and the City's growth plan, as identified in the Fiscal Impact Analysis (FIA) prepared by Watson & Associates Economists Ltd, assumed that the new DC reserve funds would be in use as of January 1, 2014 and that any transactions going forward would reflect the new fund structure. As the accounts were not established yet, some projects were funded by the previous reserve funds instead of the new accounts. Therefore an adjustment will be made as at December 31, 2014 to move any 2014 transactions from the old reserve funds to their respective new funds.

CAPITAL CONTRIBUTION

11. Earlier in 2014, the City reached an agreement with the Salem and Hewitt's Secondary Plan landowners via a Memorandum of Understanding, referred to hereafter as the MOU (ref. Motion 14-G-126). The MOU specifies various terms and conditions related to the payment of development charges as well as front ending of infrastructure, front ending of environmental assessment and design costs, and capital contributions. The intent is that the terms and conditions from the MOU will be reflected in the financial agreement that will be executed between the City and the Landowners. A key component of the MOU is the capital contribution to be paid by the Salem and Hewitt's landowners. The capital contribution was calculated based on growth related costs that are not eligible for inclusion in development charges as per the Development Charges Act. These costs would include the 10% statutory reduction, service level caps and ineligible services such as landfill, City Halls etc. A Capital Contribution Reserve Fund is being recommended to ensure that the funds collected are used appropriately and to provide the required level of transparency through quarterly and annual reporting.
12. The FIA assumed that the capital contribution would be used to fund projects commencing in 2012. As the financial agreement is not yet in place, the City has continued to fund these costs by other means, recognizing that once the agreement is finalized and contributions are received, the City will be in a position to repay the other sources. Once the financial agreement is in place, the City will adjust the capital contribution balance to reflect the amounts owing to other sources, and these amounts will be repaid as cash flow permits.

NEXT STEPS

13. An update of the City's Long Range Financial Plan will be prepared in 2015, which will reflect the FIA assumptions and will summarize the City's future capital needs and required funding. At that time it may be determined that additional reserves and/or reserve funds are required in order to effectively monitor and plan for future cash flow requirements.
14. In addition to evaluating future reserve requirements, a complete analysis of all legacy reserves will be completed. This may result in recommendations to close, consolidate and/or rename various reserves in order to reflect the City's current funding needs and reporting requirements.

ENVIRONMENTAL MATTERS

15. There are no environmental matters related to the recommendations.

ALTERNATIVES

16. No alternatives to the recommendations have been identified.

FINANCIAL

17. There are no direct financial implications for the Corporation resulting from the recommendations in this Staff Report.

LINKAGE TO COUNCIL STRATEGIC PRIORITIES

18. The recommendations included in this Staff Report support Council's goal to strengthen Barrie's financial condition.