



	REPORT No.: 2019-02
MEETING DATE: JANUARY 10, 2019	DATE PREPARED: DECEMBER 6, 2018
SUBJECT: 2018 RESERVE AND RESERVE FUND STRATEGY UPDATE	

RECOMMENDATION

THAT with respect to Report No. 2019-02 (Corporate Services Division) we, The District of Thunder Bay Social Services Administration Board (TBDSSAB or the Board), approve the 2018 Reserve Fund Strategy provided within the report;

AND THAT \$3,000,000 be transferred from the Social Housing Reserve Fund to the Direct-Owned Housing Portfolio Capital Replacement Reserve Fund;

AND THAT \$3,400,000 be transferred from the Social Housing Reserve Fund to the Capital Regeneration Reserve Fund;

AND THAT the priority repayment of \$649,228 to the Social Housing Reserve Fund be removed;

AND THAT the Community Social Reinvestment Reserve Fund be closed;

AND THAT the Ontario Works Client Benefits Reserve Fund be closed;

AND THAT any necessary By-laws be presented to the Board, for consideration.

REPORT SUMMARY

To provide an update to the Reserve and Reserve Fund Strategy for The District of Thunder Bay Social Services Administration Board (TBDSSAB or the Board).

BACKGROUND

One of the components of the TBDSSAB Strategic Plan related to the practical vision is financial transparency and sustainability. A key element within this component includes enhancing the strategy relative to Reserve and Reserve Funds. Administration follows the previously approved Guiding Principles when managing the Reserve Fund Strategy.

The Board-approved Reserve and Reserve Fund Policy requires an annual review of Reserves and Reserve Funds, with any recommendations to be presented to the Board for consideration and approval prior to the annual budget process.

COMMENTS

Per the Audited Consolidated Financial Statements at December 31, 2017, TBDSSAB maintained a Reserve Fund balance of \$23,207,452. The table below shows the sources (Provincial, Municipal, earned investment income) of each Reserve Fund balance:

Reserve Fund	Sources			
	Provincial (\$)	Municipal (\$)	Accumulated Earned Investment Income (\$)	Total (\$)
Capital regeneration*	234,507	-	-	234,507
Community Social Reinvestment Program	-	10,034	22,946	32,981
Direct-Owned Housing Portfolio Capital Replacement**	2,004,113	-	8,193,475	10,197,588
Early Years	224,106	-	247,646	471,752
Employment Compensation and Benefits	458,666	-	494,063	952,729
Levy Stabilization	85,711	2,243,880	116,192	2,445,783
Office Building	-	897,823	35,374	933,197
Social Housing	2,319,801	3,677,111	1,942,003	7,938,915
Total, as at December 31, 2017	5,326,904	6,828,848	11,051,699	23,207,452

*Capital Regeneration Reserve Fund contributions come from selling Social Housing properties which were built using Provincial/Federal funds. Therefore, classify the contributions as "Provincial".

**TBDSSAB receives "Federal Block Funding" from the Provincial government to support a portion of Social Housing costs, including the contribution to the capital replacement reserve fund. It is not possible to determine how much of the contribution to the reserve fund is from that source vs the municipal levy.

The determination of an appropriate level for Reserve Fund balances is generally a matter of professional judgment. Estimates and assumptions must be made regarding future events which may or may not occur. In that regard, these estimates and assumptions must be continually reviewed and amended as more current or appropriate information becomes available.

REVIEW OF EXISTING RESERVE FUNDS

Early Years

The Early Years Reserve Fund is available to support child care centres and ensure consistency with the Ontario Early Years vision of ensuring that children and families are well supported by a system of responsive, accessible and increasingly integrated Early Years programs and services.

No changes are recommended to this Reserve Fund strategy. As per the December 31, 2017, Audited Financial Statements, the Early Years Reserve Fund balance was \$471,752.

Community Social Reinvestment Program (CSRP)

Funds not expensed under the CSRP during the year, are transferred to the Reserve Fund and used for future children-centred programming. Pursuant to Report 2016-29: Community Social Reinvestment Program (CSRP) – Continuation of the Program for 2018, TBDSSAB received double-majority support from Member Municipalities to continue offering CSRP at the historical funding level.

As per the Audited Financial Statements at December 31, 2017, the balance in the CSRP Reserve Fund was \$32,981 which was fully utilized in 2018 in accordance with the approved plan. With the Reserve Fund fully depleted, Administration recommends the CSRP Reserve Fund be closed.

Employment Compensation and Benefits

TBDSSAB oversees its Administrative Services Only (ASO) Employment Benefits Program, and manages the Workplace Safety and Insurance Board (WSIB) Program as a Schedule 2 employer. In addition, the organization has adopted a strategic focus consistent with the Board-approved Strategic Plan, relative to the wellness and development of its employees (healthy, supportive work environment).

Benefits Administration

Under the ASO arrangement, TBDSSAB retains the full liability for all claims paid under the plan, with the exception of those claims that qualify under the stop-loss pooling arrangement. As a result, TBDSSAB is responsible for the risk associated with funding the benefit plan.

Industry practice is for this financial risk to be mitigated by the establishment of a Reserve or Reserve Fund. Although it is not mandatory or legislated for TBDSSAB to carry a Reserve Fund, it is considered a sound financial management practice to mitigate the potential risk.

The level of the Reserve Fund is based on risk management for the cost of excessive claims, benefit stabilization to mitigate significant future increases, and pro-active initiatives under a Safety, Health and Wellness Program. Based on these indicators, the Reserve Fund should maintain \$178,900 to mitigate its benefits' administration risk.

WSIB

As TBDSSAB is a Schedule 2 employer for WSIB, similar to the ASO program, it needs to adopt a strategic approach to manage any risk associated with being self-funded for WSIB. In this regard, the organization monitors the actuarial valuation provided by WSIB, relative to the sufficiency of its Reserve Funds. Based on the average valuation over the past five years, the Reserve Fund should include approximately \$75,700 to mitigate the risk associated with its Schedule 2 status. From 2015-2017 the WSIB valuation has indicated a nil employee benefit obligation with regards to WSIB.

Administration is currently reviewing changes in the premium rate structure which could make it financially viable for TBDSSAB to become a Schedule 1 employer for WSIB. As a Schedule 1 employer, TBDSSAB would pay a premium for each employee, rather than the full cost of each claim.

Employment Compensation

From time to time, various situations occur relative to employment compensation that may significantly impact current year financial results. Consistent with the Guiding Principles and rationale for maximizing financial sustainability within the organization, events related to one-time uncommon settlements should continue to be considered as eligible costs to be funded from the Reserve Fund.

Summary

Based on the items outlined above, the total estimated balance in the Reserve Fund should be \$654,600. As per the Audited Financial Statements at December 31, 2017, the balance in the Employment Compensation and Benefits Reserve Fund was \$952,729.

Due to the uncertainty associated with various aspects of the elements of this Reserve Fund, and pending the results of the WSIB analysis discussed above, no changes to the level of this Reserve Fund are recommended at this time.

Levy Stabilization

The establishment of the Levy Stabilization Reserve Fund was approved by the Board as a result of the Reserve and Reserve Fund Strategy (Report #2014-60) in 2014, to be used to mitigate unusual and/or excessive levy changes across the spectrum of TBDSSAB programming. Any recommendations regarding the use of this Reserve Fund would normally be provided with the recommended Budget package. No changes are recommended to this strategy. Any proposed usage will be presented with the 2019 proposed Budget.

As per the Audited Financial Statements at December 31, 2017, the balance in the Levy Stabilization Reserve Fund was \$2,445,783.

Office Building

The Building Condition Assessments (BCAs) provided a detailed analysis of the capital needs to maintain the Headquarters office building over 30 years, beginning in 2014. The amount required totaled \$2M, although minimal capital is required (\$49,300) over the next five years (2019-2023).

A schedule of annual contributions was provided from the BCAs, and has been included within the Annual Budgets. For 2019, the contribution is \$187,600 and is recommended for inclusion within the 2019 proposed Budget. No changes are recommended to this strategy. The balance of the Reserve Fund, per the Audited Financial Statements at December 31, 2017, was \$933,197.

Ontario Works (OW) Client Benefits

The province committed to a gradual upload of the municipal share of client benefits and allowances beginning in 2010, with the full effect occurring in 2018. The Board approved a strategy to access this Reserve Fund to offset the OW levy portion from 2013 to 2018, at which time there would be no balance remaining in this Reserve Fund.

As per the December 31, 2017, Audited Financial Statements, the OW Client Benefits Reserve Fund had a nil balance. With the Reserve Fund fully depleted, Administration recommends the OW Client Benefits Reserve Fund be closed.

Social Housing

An amount may be provided annually to the Social Housing Reserve Fund, with Board approval, through the disposition of prior-year Housing Program levy surplus. Amounts may be withdrawn to fund unexpected operating and capital requirements for all Social Housing service providers.

As per the Audited Financial Statements at December 31, 2017, the balance in the Social Housing Reserve Fund was \$7,938,915. Based on previous Board-approved allocations for the 8-plex construction, and the Royal Edward Arms' lease completion, \$649,228 is to be returned to the Reserve Fund, on a priority basis, from future Housing Program year-end surpluses.

Administration has reviewed the future expected requirements for this Reserve Fund, including the Housing Provider Loan program (Report No. 2015-50 – Not for Profit Housing Provider Loan Program), preparations for End of Operating Agreements, and Project-in-Difficulty resolutions. Based on this analysis, a balance of \$1.5M in the Social Housing Reserve Fund would be sufficient. Therefore, Administration recommends, the requirement to return the \$649,228 to the Social Housing Reserve Fund is no longer required.

Of the remaining amounts in the Social Housing Reserve Fund, Administration also recommends that:

- \$3,000,000 from the Social Housing Reserve Fund be transferred to the Direct-Owned Housing Portfolio Capital Replacement Reserve Fund, to finance future capital requirements. The \$3,000,000 contribution would ensure that a minimum level of \$4,000,000 will be maintained in this Reserve Fund in accordance with previously approved parameters for this Reserve Fund (see discussion below).
- \$3,400,000 be transferred from the Social Housing Reserve Fund to the Capital Regeneration Reserve Fund to finance future new TBDSSAB housing builds and/or regeneration of existing TBDSSAB direct-owned housing projects in accordance with previously approved directions (see discussion below).

This would leave a balance of \$1,538,915 in the Social Housing Reserve Fund, to be used to finance future operating and capital requirements of Social Housing service providers.

Direct-Owned Housing Portfolio Capital Replacement

Contributions to this Direct-Owned Housing Portfolio Capital Replacement Reserve Fund are required through the *Housing Services Act, 2011*. The legislative requirement is that prior-year contributions are increased annually by applying the Provincial Benchmark Index (2.27% for 2019). In the 2014 Strategy (Report No. 2014-60 – Reserve and Reserve Fund Strategy), based on the BCAs and related identified capital works, the contribution strategy was revised to be the greater of those legislated benchmarks, or 3%. In the 2016 Strategy Update (Report No. 2016-54 – Reserve and Reserve Fund Strategy Update), the Board increased the contribution level to 4%, beginning in the 2017 Budget year to ensure future funding requirements. These contributions totaled approximately \$2.5M in 2018.

In addition, the strategy recommends a minimum level of \$4M be maintained in this Reserve Fund since it is used as a funding source for annual capital projects for the housing portfolio. The strategy also approved a maximum level of \$4M to be applied to capital projects from the Reserve Fund each Budget year.

In 2016-18, TBDSSAB received grants under the Provincially-funded Social Housing Apartment Retrofit Program (\$2.5M), Social Housing Apartment Improvement Program (\$2.8M) and the Federally-funded Social Housing Improvement Program (\$3.2M). These funds were directed toward capital projects that had been planned for in future years. Having these projects funded by these 100% funded capital programs has had a favourable impact on future capital financing requirements. The province of Ontario has entered into a bi-lateral agreement with the Canada Mortgage and Housing Corporation under the 2017 National Housing Strategy. This agreement includes the Canada Community Housing Initiative (CCHI) which will, beginning April 1, 2109, result in the reinvestment of federal funding that is set to expire as existing social housing mortgages are paid off, back into that legacy social housing portfolio.

Based on current estimates, the recent infusion of Provincial and Federal Capital funding, and the recommended transfer of \$3M from the Social Housing Reserve Fund (above), over the next 20 years, and the investment of federal funds under the CCHI the Direct-Owned Housing Portfolio Capital Replacement Reserve Fund will maintain a minimum balance of \$4M. Therefore, Administration is recommending a change to the current strategy. The increase in the contribution level to the Direct-Owned Housing Portfolio Capital Replacement Reserve Fund is recommended at 2.27% rather than 4%. Further, once the exact parameters of the CCHI are determined Administration will review the reserve fund balance and present a revised strategy later in 2019. As per the December 31, 2017, Audited Financial Statements, the balance in the Direct-Owned Housing Portfolio Capital Replacement Reserve Fund was \$10,197,588.

Capital Regeneration

In the 2016 Strategy Update (Report No. 2016-54 – Reserve and Reserve Fund Strategy Update), the Board established the Capital Regeneration Reserve Fund to manage the financial resources associated with the disposition of certain properties within the housing portfolio. These financial resources will be reinvested in

new/renovated housing units, following the Board approved Property Portfolio Action Plan approved through Report No. 2017-07 – TBDSSAB Property Portfolio Action Plan and Capital Strategy Update. A Report will be presented to the Board later in 2019, with options and strategies to reinvest these funds in a new housing build.

As per the December 31, 2017 Audited Financial Statements, the balance in the Capital Regeneration Reserve Fund was \$234,507. During 2018, four owned properties were sold, with net proceeds of approximately \$594,200 to be placed in the Capital Regeneration Reserve Fund. With the recommended transfer of \$3.4M from the Social Housing Reserve Fund (above), no further changes are recommended to this Reserve Fund strategy.

RESERVES

TBDSSAB does not currently utilize a Reserve in its financial management strategy. Regulation 278/98 of the DSSAB Act permits the Board to include, in its annual operating levy to municipalities, a working Reserve, up to 15% of the total estimates. This would equate to approximately \$3.4 million, based on the 2018 Budget operating levy. However, TBDSSAB has not exercised this option due to the robust Reserve Fund Strategy implemented by the Board especially with the use of a Levy Stabilization Reserve Fund.

REVIEW OF DEFERRED REVENUE

Deferred Revenue accounts are set up to account for unearned revenue amounts at year end. Annually, Administration completes a review of the deferred revenue balances, in the year-end financial statements, to determine if there are any opportunities to transfer earned amounts into appropriate Reserves and/or Reserve Funds.

There are no deferred revenue amounts eligible for transfer to a Reserve or Reserve Fund at this time.

REVIEW OF RESERVE FUND FOR EMERGENCIES

From time-to-time TBDSSAB receives emergency, in-year funding requests from community agencies. Each year, the Board deliberates and approves its Operating Budget for the upcoming year, allocating all known financial resources under the various programs delivered by TBDSSAB under the DSSAB Act. TBDSSAB is generally unable to commit funds to an agency for an in-year emergency request. A Reserve Fund for such emergencies would enable TBDSSAB to consider eligible requests.

Federal and Provincial funding for TBDSSAB-delivered programs is generally “earned” as a percentage of the actual expense incurred by TBDSSAB. TBDSSAB is not able to transfer unearned Federal and Provincial funding to a Reserve Fund. In addition, the Board has a policy that does not support a municipal share that is greater than what is determined by each program’s funding formula. Increasing the municipal share beyond the program funding formula or providing funding for non-mandated programs would require double majority support from municipalities under that policy. Therefore, TBDSSAB does not have available financial resources to allocate to a Reserve Fund for emergencies.

FINANCIAL IMPLICATIONS

It is considered sound financial management, within the public sector, to establish, and maintain, a strategy for the management of Reserve and Reserve Funds to mitigate financial implications associated with risks of potential, known, and unknown, liabilities.

All financial implications associated with contributions or usage will be provided through the annual Budget process, as required.

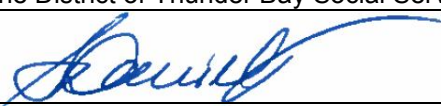

CONCLUSION

It is concluded that the 2018 Reserve Fund Strategy Update outlined in this report contributes to the financial sustainability of TBDSSAB programming, and should be implemented;

And that an analysis of the Reserve and Reserve Funds be completed annually, and provided to the Board each year, prior to Budget deliberations.

REFERENCE MATERIALS ATTACHED

- Attachment #1 [Summary of Reserve Fund Recommendations](#)
- Attachment #2 [Financial Summary of Reserve Fund Strategy Recommendations](#)

PREPARED BY:	Keri Greaves, CPA, CMA, Manager, Finance The District of Thunder Bay Social Services Administration Board
APPROVED / SIGNATURE:	 Georgina Daniels, FCPA, FCA, Director – Corporate Services Division The District of Thunder Bay Social Services Administration Board
SUBMITTED / SIGNATURE:	 William (Bill) Bradica, Chief Administrative Officer The District of Thunder Bay Social Services Administration Board

**The District of Thunder Bay Social Services Administration Board
Summary of Reserve and Reserve Funds**

Name	Current Purpose / Intended Use	Proposed Changes	Funding Source*	Withdrawals/ Usage
Early Years Reserve Fund	To fund the establishment of new child care spaces or relocation of child care spaces	No change	One-time unconditional grant provided by the Ministry of Children and Youth Services*	Board approval
Community Social Reinvestment Program Reserve Fund	To provide programing with a focus on recreation, nutrition and reduction in child poverty within the District of Thunder Bay	Reserve Fund is fully depleted. Recommended action to eliminate Reserve Fund	Annual unallocated funding from the Community Social Reinvestment Program*	Board approval
Employment Compensation and Benefits Reserve Fund	Vested sick leave benefits, payout of vacation credits, severance obligations, Workplace Safety and Insurance Board (WSIB) costs, ASO risk mitigation, benefit stabilization, health and wellness programming	No change	Operating funds, specifically requested per reserve fund analysis*	Board approval
Levy Stabilization	To mitigate significant future levy fluctuations across the spectrum of TBDSSAB programming	No change	Annual year end operating surpluses*	Board approval
Office Building Reserve Fund	To support required capital expenditures to maintain the TBDSSAB Headquarters office building	No change	Annual contributions per Building Condition Audit analysis / recommendations*	Board approval

Name	Current Purpose / Intended Use	Proposed Changes	Funding Source*	Withdrawals/ Usage
Ontario Works Client Benefits Reserve Fund	To finance the net municipal cost should Ontario Works caseloads increase significantly	Reserve Fund is fully depleted. Recommended action to eliminate Reserve Fund	n/a	Board strategy previously approved to utilize funds and close fund by 2018
Social Housing Reserve Fund	To fund future unexpected operating and capital requirements for all social housing service providers, including TBDSSAB's direct-owned housing portfolio	Reduce Reserve Fund level to approximately \$1.5M by transferring \$3.0M to the Direct-Owned Housing Portfolio Capital Replacement Reserve Fund and \$3.4M to the Capital Regeneration Reserve Fund	Social housing levy surpluses*	Business Case from Housing Service Providers approved by Board
Direct-Owned Housing Portfolio Capital Replacement Reserve Funds	To support the capital needs of the various direct-owned housing projects	Transfer \$3.0M from the Social Housing Reserve Fund	Annual contributions equal to the greater of 4% of prior years' required contributions and current year legislated contributions* For 2019- Current Year Legislated contributions to be used.	Board approval
Capital Regeneration Reserve Fund	To support the regeneration of New / Renovated Housing Units	Transfer \$3.4M from the Social Housing Reserve Fund	Disposition of certain properties within the housing portfolio*	Board approval

*=All reserve funds will be interest bearing. Applicable funds must be invested in accordance with the TBDSSAB's approved Investment Policy. Interest will be allocated by applying the actual earned interest to individual reserve fund actual average balances on a monthly basis.

**The District of Thunder Bay Social Services Administration Board
Summary of Reserve Fund Strategy Recommendations**

Reserve Fund	Balance, December 31, 2017 \$	Board Approved Direction for 2018 \$	Estimated Balances prior to Strategy Recommendations \$	Estimated Balances after Strategy Recommendations and before 2019 Budget Approval \$
Capital Regeneration	234,507	-	234,507	3,634,507
Community Social Reinvestment Program	32,981	(32,981)	-	-
Direct-Owned Housing Portfolio Capital Replacement	10,197,588	(2,201,765)	7,995,823	10,995,823
Early Years	471,752	-	471,752	471,752
Employment Compensation and Benefits	952,729	(65,000)	887,729	887,729
Levy Stabilization	2,445,783	(65,000)	2,380,783	2,380,783
Office Building Capital	933,197	110,500	1,043,697	1,043,697
Ontario Works Client Benefits	-	-	-	-
Social Housing	7,938,915	-	7,938,915	1,538,915
Total	23,207,452	(2,254,246)	20,953,206	20,953,206