



	<b>REPORT No.: 2019-49</b>
<b>MEETING DATE: OCTOBER 17, 2019</b>	<b>DATE PREPARED: SEPTEMBER 20, 2019</b>
<b>SUBJECT: 2019 RESERVE AND RESERVE FUND STRATEGY UPDATE</b>	

**RECOMMENDATION**

THAT with respect to Report No. 2019-49 (Corporate Services Division) we, The District of Thunder Bay Social Services Administration Board (Board), approve the 2019 Reserve Fund Strategy provided within the Report;

AND THAT we approve the renaming of the Direct-Owned Housing Portfolio Capital Replacement Reserve Fund to the Housing Portfolio Capital Reserve Fund;

AND THAT we approve the renaming of the Social Housing Reserve Fund to the Community Housing Reserve Fund;

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

**REPORT SUMMARY**

To provide the annual 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 practical vision of TBDSSAB's 2017-2020 Strategic Plan 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:

1. Alternative arrangements should be considered before creating a new reserve fund, for example, accommodating expenditures from existing reserve funds, or alternate funding arrangements;
2. Future reserve funds should only be established based on a financial plan which identifies the ongoing source of funding and projected expenditures from the reserve fund;
3. Definitions for the contribution, use and withdrawal of reserve funds must be in alignment with the intent of the approved By-laws, and should not be changed without a thorough review and analysis relative to the financial sustainability of TBDSSAB;

4. Appropriate financial and program analysis is to be completed prior to recommendations relative to contributions and/or usage of reserves and reserve funds;
5. Assumptions and projections regarding various events that impact reserve and reserve fund balances must be re-evaluated on a regular basis to ensure appropriateness of the strategy;
6. An annual update of the Reserve and Reserve Fund Strategy is provided to the Board prior to annual budget deliberations.

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, 2018, TBDSSAB maintained a Reserve Fund balance of \$24,503,134. The 2018 Reserve and Reserve Fund Strategy Update, approved by the Board at the January 10, 2019, Board Meeting, included the transfer of \$6.4 million from the Social Housing Reserve Fund, to the Capital Regeneration Reserve Fund (\$3.4 million) and the Direct-Owned Housing Portfolio Capital Replacement Reserve Fund (\$3.0 million). The table below, shows the sources (Provincial, Municipal, earned investment income) of each Reserve Fund balance after this transfer was completed:

Reserve Fund	Sources			
	Provincial (\$)	Municipal (\$)	Accumulated Earned Investment Income (\$)	Total (\$)
Capital regeneration*	1,761,672	1,526,113	918,581	4,206,366
Direct-Owned Housing Portfolio Capital Replacement**	4,144,029	-	9,219,977	13,364,006
Early Years	224,106	-	262,695	486,801
Employment Compensation and Benefits	458,666	-	524,455	983,121
Levy Stabilization	85,711	2,243,880	194,213	2,523,804
Office Building	-	1,081,723	65,143	1,146,866
Social Housing	507,494	804,428	480,248	1,792,170
<b>Total, as at December 31, 2018 (Adjusted for Transfers Approved in 2018 Reserve and Reserve Fund Strategy Update (Res19/12))</b>	<b>7,181,678</b>	<b>5,656,144</b>	<b>11,665,312</b>	<b>24,503,134</b>

\*Capital Regeneration Reserve Fund contributions come from selling Social Housing properties which were built using Provincial/Federal funds. Therefore, classify the contributions as "Provincial". The transfer from the Social Housing Reserve Fund (2019) included some Municipal contribution.

\*\*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

#### 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.

As per the December 31, 2018, Audited Financial Statements, the balance in the Capital Regeneration Reserve Fund was \$806,366. To date in 2019, three owned properties have been sold, with net proceeds of approximately \$497,100 to be placed in the Capital Regeneration Reserve Fund. With the transfer of \$3.4M from the Social Housing Reserve Fund (above), and \$335,200 from the 2018 Program Levy Operating Surplus Disposition, there is currently approximately \$4.9M available for regeneration projects. There are no changes recommended to this strategy.

#### Direct-Owned Housing Portfolio Capital Replacement

Contributions to the 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 (2.37% for 2020).

In the 2014 Strategy (Report No. 2014-60 – Reserve and Reserve Fund Strategy), based on the Building Condition Assessments (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. Through the 2018 Reserve and Reserve Fund Strategy Update, the Board approved a change to this strategy, reducing the contribution increase from 4% to the Provincial Benchmark Index (2.27% for 2019). The contributions totalled approximately \$2.6M in 2019.

In addition, the strategy recommends that 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 through 2018, 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 future years. Having these projects funded by these 100%-funded capital programs has had a favourable impact on future capital financing requirements. Federal funding that was set to expire as existing social housing mortgages mature, is being reinvested into the legacy social housing portfolio through the Canada-Ontario Community Housing Initiative (COCHI). COCHI includes a capital component to repair or replace aging building systems, and health and safety repairs.

Based on current estimates, the recent infusion of Provincial and Federal capital funding, COCHI funds that will be available for capital repairs, and the transfer of \$3M from the Social Housing Reserve Fund (noted above) earlier in 2019, over the next 20 years, the Direct-Owned Housing Portfolio Capital Replacement Reserve Fund will maintain a minimum balance of \$4M. Therefore, no changes are recommended to this strategy. Administration is recommending a change to the name of this reserve fund to the "Housing Portfolio Capital Reserve Fund".

As per the December 31, 2018, Audited Financial Statements, the balance in the Direct-Owned Housing Portfolio Capital Replacement Reserve Fund was \$10,364,006.

### 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, 2018, Audited Financial Statements, the Early Years Reserve Fund balance was \$486,801.

### 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 2017-2020 Strategic Plan, relative to the wellness and development of its employees.

#### *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 \$181,400 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 \$37,800 to mitigate the risk associated with its Schedule 2 status. From 2015 to 2018, the WSIB valuation has indicated a nil employee benefit obligation with regard to WSIB.

Administration continues to review the viability of becoming a Schedule 1 employer for WSIB, which would mean paying a premium for each employee, rather than the full cost of each claim. Administration has received an initial rating determination from WSIB officials that is not favourable. Further research is being undertaken before a decision can be made.

### *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 \$619,200. As per the Audited Financial Statements at December 31, 2018, the balance in the Employment Compensation and Benefits Reserve Fund was \$983,121.

Due to the uncertainty associated with various aspects of the elements of this Reserve Fund as well as uncertainty with future Provincial funding levels, no changes to the amount of this Reserve Fund are recommended.

### Levy Stabilization

The establishment of the Levy Stabilization Reserve Fund was approved by the Board as a result of Report No. 2014-60 - Reserve and Reserve Fund Strategy, 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 2020 proposed Budget.

As per the Audited Financial Statements at December 31, 2018, the balance in the Levy Stabilization Reserve Fund was \$2,523,804.

### Office Building

The BCAs provided a detailed analysis of the capital needs required to maintain the Headquarters office building over 30 years, beginning in 2014. This amount totalled \$2M, although minimal capital is required (\$40,900) over the next five years (2020 to 2024).

A schedule of annual contributions was provided from the BCAs, and has been included within the annual Operating Budgets. For 2020, the contribution is \$191,300 and is recommended for inclusion within the 2020 proposed Budget. No changes are recommended to this strategy. The balance of the Reserve Fund, per the Audited Financial Statements at December 31, 2018, was \$1,146,866.

### 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, 2018, the balance in the Social Housing Reserve Fund was \$8,192,170, however, pursuant to the 2018 Reserve and Reserve Fund Strategy Update, \$3.4 million was transferred to the Capital Regeneration Reserve Fund and \$3.0 million was transferred to the Direct-Owned Housing Portfolio Capital Replacement Reserve Fund, leaving a balance of \$1,782,170. Administration continues to work with Housing Providers in preparation for End of Operating Agreements and to resolve 'Projects in Difficulty'. No changes are recommended to this Reserve Fund strategy. However, to be consistent with the terminology now used by the Province of Ontario, Administration recommends the Social Housing Reserve Fund be renamed the "Community Housing Reserve Fund".

## RESERVES

TBDSSAB does not currently utilize a Reserve in its financial management strategy. Regulation 278/98 of the *District Social Services Administration Boards Act, R.S.O. 1990, c. D.15* 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. Although TBDSSAB does not utilize a Reserve, it has established the use of a Levy Stabilization Reserve Fund, which could be considered a proxy for a working Reserve. The balance of that Reserve Fund as at December 31, 2018 was 11% of the 2019 budget levy.

## 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.

The proposed changes discussed above are summarized in Attachment 1 – Summary of Reserve and Reserve Fund Strategy Recommendations.

## **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.

The financial implications associated with this strategy are summarized in Attachment 2 – Financial Summary of Reserve and Reserve Fund Strategy Recommendations, and will be provided through the annual Budget process, as required.

## **CONCLUSION**



It is concluded that the 2019 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 and Reserve Fund Strategy Recommendations](#)

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

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<b>SUBMITTED / SIGNATURE:</b>	 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 Fund Strategy Recommendations**

<b>Name</b>	<b>Current Purpose/Intended Use</b>	<b>Proposed Changes</b>	<b>Funding Source*</b>	<b>Withdrawals/Usage</b>
Capital Regeneration Reserve Fund	To support the regeneration of new/renovated housing units	No change	Disposition of certain properties within the Housing portfolio*	Board approval
Direct-Owned Housing Portfolio Capital Replacement Reserve Funds	To support the capital needs of the various direct-owned housing projects	No change to strategy. Recommend changing name to the "Housing Portfolio Capital Reserve Fund"	Legislated annual contributions*	Board approval
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
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

Name	Current Purpose/Intended Use	Proposed Changes	Funding Source*	Withdrawals/Usage
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
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	No change to strategy. Recommend changing name to the "Community Housing Reserve Fund"	Housing levy surpluses*	Business Case from Housing Service Providers approved by Board

\* All reserve funds will be interest bearing. Applicable funds must be invested in accordance with 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  
Financial Summary of Reserve and Reserve Fund Strategy Recommendations**

<b>Reserve Fund</b>	<b>Balance, December 31, 2018 \$</b>	<b>Board Approved Direction for 2019 Inflow/(Outflow) \$</b>	<b>Estimated Balance Prior to 2020 Budget Approval \$</b>
Capital Regeneration	806,366	4,182,300	4,988,666
Direct-Owned Housing Portfolio Capital Replacement	10,364,006	1,040,684	11,404,690
Early Years	486,801	-	486,801
Employment Compensation and Benefits	983,121	-	983,121
Levy Stabilization	2,523,804	(201,300)	2,322,504
Office Building Capital	1,146,866	71,600	1,218,466
Social Housing	8,192,170	(6,410,000)	1,782,170
<b>Total</b>	<b>24,503,134</b>	<b>(1,316,716)</b>	<b>23,186,418</b>