



	REPORT No.: 2020-44
MEETING DATE: OCTOBER 15, 2020	DATE PREPARED: SEPTEMBER 15, 2020
SUBJECT: 2020 RESERVE AND RESERVE FUND STRATEGY UPDATE	

RECOMMENDATION

THAT with respect to Report No. 2020-44 (Corporate Services Division) we, The District of Thunder Bay Social Services Administration Board, approve the 2020 Reserve Fund Strategy provided within the Report.

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 2020-2023 Strategic Plan is financial stewardship. 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 as at December 31, 2019, TBDSSAB maintained a Reserve Fund balance of \$26,953,027. 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*	2,791,495	1,861,313	954,051	5,606,859
Housing Portfolio Capital **	4,576,216	-	9,466,517	14,042,733
Early Years	224,106	-	266,800	490,906
Employment Compensation and Benefits	458,666	-	532,744	991,410
Levy Stabilization	-	2,299,386	370,344	2,669,730
Office Building	-	1,269,323	74,814	1,344,137
Community Housing	507,494	804,428	495,360	1,807,282
Total, as at December 31, 2019	8,557,977	6,234,450	12,160,630	26,953,057
*Capital Regeneration Reserve Fund contributions come from selling Community Housing properties which were built using Provincial/Federal funds. Therefore, classify the contributions as "Provincial". The transfer from the Community Housing Reserve Fund (2019) included some Municipal contribution.				
**TBDSSAB receives "Federal Block Funding" from the Provincial government to support a portion of Community 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 versus 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 direct-owned 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, 2019, Audited Financial Statements, the balance in the Capital Regeneration Reserve Fund was \$5,606,859. The 2020 Operating Budget included financing from the Capital Regeneration Reserve Fund: \$50,000 for consulting services pursuant to the Bertrand Court regeneration, and a \$250,000 contribution for six accessible units at McIvor Court, constructed under the Ontario Priorities Housing Initiative.

In 2020, the final property identified for sale in Report No. 2017-07 – TBDSSAB Property Portfolio Action Plan and Capital Strategy Update was sold, with net proceeds of approximately \$168,932 to be placed in the Capital Regeneration Reserve Fund. There is currently approximately \$5.5M available for regeneration projects. There are no changes recommended to this strategy.

Report No. 2020-48 – Bertrand Court Regeneration Strategy Update provides recommendations for usage of the Capital Regeneration Reserve Fund. The financial impact will be included in the 2021 TBDSSAB Operating Budget.

Housing Portfolio Capital

Contributions to the Housing Portfolio Capital Reserve Fund are required through the *Housing Services Act, 2011*. The legislative requirement is that prior year contributions are increased/decreased annually by applying the Provincial Benchmark Index (-0.43% for 2021).

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%, back to the Provincial Benchmark Index. Applying the 2021 Index would result in total contributions of \$2,640,600 to be included in the 2021 Operating Budget.

In addition, the strategy recommends that a minimum level of \$4.0M 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 \$4.0M to be applied to capital projects from the Reserve Fund each Budget year.

In 2016 through 2020, 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) and Canada-Ontario Community Housing Initiative (\$0.5M). These funds were directed toward capital projects that had been planned for future years. Having these projects financed by these 100%-funded capital programs has had a favourable impact on future capital financing requirements.

Despite the recent infusion of Provincial and Federal capital funding, given the projected balance of the Housing Portfolio Capital Reserve Fund (\$12.3M), estimated annual contributions (2% annual increase to the Provincial Benchmark Index), and a conservative estimate for investment income (2% return per year), if \$4.0M is withdrawn from the Reserve Fund each year to support the Capital Budget, the Reserve Fund will be depleted in 2035. However, if the maximum annual Capital Budget withdrawal is reduced from \$4.0M to \$3.75M the projected minimum Reserve Fund balance could be maintained around \$4.0M over the next 20 years. In that regard, in order to ensure the Housing Portfolio Capital Reserve Fund maintains a minimum balance of \$4.0M over the next 20 years, Administration recommends reducing maximum annual capital budget, funded by the reserve fund, from \$4.0M to \$3.75M.

As per the December 31, 2019, Audited Financial Statements, the balance in the Direct-Owned Housing Portfolio Capital Replacement Reserve Fund was \$14,042,733.

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, 2019, Audited Financial Statements, the Early Years Reserve Fund balance was \$490,906.

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 2020-23 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, except for 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 \$174,500 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. From 2015 to 2020, 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 \$574,500. As per the Audited Financial Statements, as at December 31, 2019, the balance in the Employment Compensation and Benefits Reserve Fund was \$991,410.

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 2021 proposed Budget.

As per the Audited Financial Statements as at December 31, 2019, the balance in the Levy Stabilization Reserve Fund was \$2,669,730.

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 totaled \$2M, although minimal capital is required (\$40,900) over the next five years (2021 to 2025).

A schedule of annual contributions was provided from the BCAs and has been included within the annual Operating Budgets. For 2021, the contribution is \$195,200 and will be recommended for inclusion within the 2021 proposed Budget. No changes are recommended to this strategy. The balance of the Reserve Fund, per the Audited Financial Statements as at December 31, 2019, was \$1,344,137.

Community Housing

An amount may be provided annually to the Community 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 Community Housing service providers.

As per the Audited Financial Statements as at December 31, 2019, the balance in the Community Housing Reserve Fund was \$1,807,282. 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.

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 \$3.3 million, based on the 2019 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, 2019 was 12% of the 2020 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 2020 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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**The District of Thunder Bay Social Services Administration Board
Summary of Reserve and Reserve Fund Strategy Recommendations**

Name	Current Purpose/Intended Use	Proposed Changes	Funding Source*	Withdrawals/Usage
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
Housing Portfolio Capital Reserve Fund	To support the capital needs of the various direct-owned housing projects	Recommend reducing the maximum annual capital budget, financed from the reserve fund, from \$4.0M to \$3.75M.	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
Community 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	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**

Reserve Fund	Balance, December 31, 2019 \$	Board Approved Direction for 2020 Inflow/(Outflow) \$	Estimated Balance Prior to 2021 Budget Approval \$
Capital Regeneration	5,606,859	(131,068)	5,475,791
Community Housing	1,807,282	(10,000)	1,797,282
Early Years	490,906	-	490,906
Employment Compensation and Benefits	991,410	-	991,410
Housing Portfolio Capital	14,042,733	(2,414,100)	11,628,633
Levy Stabilization	2,669,730	-	2,669,730
Office Building Capital	1,344,137	111,300	1,455,437
Total	26,953,057	(2,443,868)	24,509,189