



	REPORT No.: 2021-44
MEETING DATE: OCTOBER 21, 2021	DATE PREPARED: SEPTEMBER 23, 2021
SUBJECT: 2021 RESERVE AND RESERVE FUND STRATEGY UPDATE	

RECOMMENDATION

THAT with respect to Report No. 2021-44 (Corporate Services Division) we, The District of Thunder Bay Social Services Administration Board, approve the 2021 Reserve Fund Strategy provided within the Report;

AND THAT the necessary By-law 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 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, 2020, TBDSSAB maintained a Reserve Fund balance of \$28,311,125. The table below, shows the sources (Provincial, Municipal, earned investment income) of each Reserve Fund balance:

Reserve Fund	Sources			Total (\$)
	Provincial (\$)	Municipal (\$)	Accumulated Earned Investment Income (\$)	
Capital Regeneration*	2,762,675	1,861,313	1,171,687	5,795,675
Housing Portfolio Capital **	4,885,331	-	9,851,866	14,737,197
Early Years	224,106	-	285,855	509,961
Employment Compensation and Benefits	458,666	-	571,227	1,029,893
Levy Stabilization	-	2,299,386	473,971	2,773,357
Office Building	-	1,460,623	126,987	1,587,610
Community Housing	507,494	804,428	565,510	1,877,432
Total, as at December 31, 2020	8,838,271	6,425,750	13,047,103	28,311,125

*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), 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. There are no changes recommended to this strategy.

As per the December 31, 2020, Audited Financial Statements, the balance in the Capital Regeneration Reserve Fund was \$5,795,675. Construction of the Bertrand Court Redevelopment Phase 1 is expected to commence in 2022, and financing from the Capital Regeneration Reserve Fund will be required per previous information provided on that project. The financial impact will be included in the 2022 TBDSSAB Operating Budget and/or subsequent Board Reports.

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 (3.71% for 2022).

In the 2014 Strategy (Report No. 2014-60), 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), 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 2022 Index of 3.71% would result in total contributions of \$2,750,400 to be included in the 2022 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 2020 strategy update reduced the maximum amount to be withdrawn for capital projects from \$4.0M to \$3.75M each Budget year.

In 2016 through 2021, 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 (\$1.3M). These funds were directed toward capital projects that had been planned for future years. Having these projects financed by these 100% Federal/Provincial funded capital programs has had a favourable impact on future capital financing requirements.

There are no changes recommended to this strategy. As per the December 31, 2020, Audited Financial Statements, the balance in the Direct-Owned Housing Portfolio Capital Replacement Reserve Fund was \$14,737,197.

Early Years

The Early Years Reserve Fund is available to support child care centres and maximize 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.

The statement of purpose of the Early Years Reserve Fund is to fund the establishment of new child care spaces including the relocation of existing spaces. Since the establishment of this Reserve Fund, the Ministry of Education has introduced Expansion Plan and Early Learning Child Care (ELCC) funding components specifically designed to expand the child care system. TBDSSAB's 2021 Expansion Plan funding allocation is \$2.9M (80% Provincial, 20% Municipal) and the 2021 ELCC funding allocation is \$1.0M (100% Federal).

From 2018 to 2019, Administration completed an expression of interest process to gauge the ability and willingness of existing child care centres and community partners to expand the child care system. Through this process, forty (40) new spaces were added by existing child care providers and a new child care centre was added totaling thirty-two spaces. Administration continues to look for expansion opportunities, however the capacity within the child care system is limited in the District of Thunder Bay.

Considering the continued focus to expand the child care system, no changes are recommended to this strategy. As per the December 31, 2020, Audited Financial Statements, the balance in the Early Years Reserve Fund was \$509,961.

Employment Compensation and Benefits

TBDSSAB oversees its Administrative Services Only (ASO) Employment Benefits Program and has adopted a strategic focus consistent with the Board-approved 2020-2023 Strategic Plan, relative to the wellness and development of its employees. Prior to January 1, 2021, TBDSSAB was a Schedule 2 employer under the Workplace Safety and Insurance Board (WSIB) program and was therefore responsible for the full cost of accident claims filed by its employees. TBDSSAB is now a Schedule 1 employer, paying premiums to the WSIB, and in exchange the WSIB pays all benefits to injured workers out of monies pooled in the insurance fund. Therefore, the financial risk of significant, unexpected claims is transferred from TBDSSAB to the WSIB.

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 \$172,400 to mitigate its benefits' administration risk.

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, excepting the possibility of one-time uncommon settlements, the total estimated balance in the Reserve Fund should be \$572,400. As per the Audited Financial Statements, as at December 31, 2020, the balance in the Employment Compensation and Benefits Reserve Fund was \$1,029,893.

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 in 2014 as a result of Report No. 2014-60, 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 2022 proposed Budget.

As per the Audited Financial Statements as at December 31, 2020, the balance in the Levy Stabilization Reserve Fund was \$2,773,357.

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 (\$76,100) over the next five years (2022 to 2026).

A schedule of annual contributions was provided from the BCAs and has been included within the annual Operating Budgets. For 2022, the contribution is \$199,100 and will be recommended for inclusion within the 2022 proposed Budget. No changes are recommended to this strategy. The balance of the Reserve Fund, per the Audited Financial Statements as at December 31, 2020, was \$1,587,610.

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, 2020, the balance in the Community Housing Reserve Fund was \$1,877,432. 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 \$3.4 million, based on the 2021 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, 2020 was 12% of the 2021 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 2021 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

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 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	No change	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, ASO risk mitigation, benefit stabilization, health and wellness programming	Remove requirement for Workplace Safety and Insurance Board (WSIB) costs; no change in strategy	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
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. Investment income will be allocated by applying the actual earned investment income 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, 2020	Board Approved Direction for 2021 Inflow/(Outflow)	Estimated Balance at Year- End 2021	2021 Strategy Update Recommendations	2022 Preliminary Proposed Budget Usage	Estimated Balance After 2022 Budget Approvals
	\$	\$	\$	\$	\$	\$
Capital Regeneration	5,795,675	1,051,173	6,846,848	-	(3,000,000)	3,846,848
Community Housing	1,877,432	(10,000)	1,867,432	-	(10,000)	1,857,432
Early Years	509,961	-	509,961	-	(112,000)	397,961
Employment Compensation and Benefits	1,029,893	-	1,029,893	-	-	1,029,893
Housing Portfolio Capital	14,737,197	(1,670,062)	13,067,135	-	(999,600)	12,067,535
Levy Stabilization	2,773,357	(49,300)	2,724,057	-	(300,000)	2,424,057
Office Building Capital	1,587,610	115,200	1,702,810	-	97,100	1,799,910
Total	28,311,125	(562,989)	27,748,136	-	(4,324,500)	23,423,636