



## BOARD REPORT

REPORT No.: 2023-38

MEETING DATE: OCTOBER 19, 2023

SUBJECT: 2023 RESERVE AND RESERVE FUND STRATEGY UPDATE

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### RECOMMENDATION

THAT with respect to Report No. 2023-38 (Corporate Services Division) we, The District of Thunder Bay Social Services Administration Board, approve the 2023 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 Reserves 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, 2022, TBDSSAB maintained a Reserve Fund balance of \$36,763,304. 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*	2,575,444	2,947,486	1,504,289	7,027,219
Housing Portfolio Capital **	7,182,251	-	10,327,328	17,509,579
Early Years	3,296,569	-	314,497	3,611,066
Employment Compensation and Benefits	458,666	-	629,073	1,087,739
Levy Stabilization	-	2,427,207	1,107,093	3,534,300
Office Building	-	1,802,510	218,010	2,020,520
Community Housing	497,494	804,428	670,959	1,972,881
<b>Total, as at December 31, 2022</b>	<b>14,010,423</b>	<b>7,981,630</b>	<b>14,771,250</b>	<b>36,763,304</b>

\*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 Reserve and Reserve Fund 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, 2022, Audited Financial Statements, the balance in the Capital Regeneration Reserve Fund was \$7,027,219.

### 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, 2022, the balance in the Community Housing Reserve Fund was \$1,972,881. 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.

### 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.

In 2022, the Board was presented with Report No. 2022-45 – Child Care Mitigation Funding, to approve the transfer of up to \$3,072,464 pertaining to Child Care Mitigation funding into the Early Years Reserve Fund. Subsequently, the Board approved By-law No. 06-2022, to allow withdrawals from this reserve fund for both capital (new or relocated child care spaces) and operating requirements to enhance the child care and early years' system.

No further changes are recommended to this strategy. As per the December 31, 2022, Audited Financial Statements, the balance in the Early Years Reserve Fund was \$3,611,066.

## Employment Compensation and Benefits

TBDSSAB has adopted a strategic focus consistent with the Board-approved 2020-2023 Strategic Plan, relative to the wellness and development of its employees. This Reserve Fund is maintained to support the various components of its Employment, Compensation and Benefits program.

### *Benefits Administration*

TBDSSAB oversees its Administrative Services Only (ASO) Employment Benefits Program. 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.

### *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 \$599,700. As per the Audited Financial Statements, as at December 31, 2022, the balance in the Employment Compensation and Benefits Reserve Fund was \$1,087,739.

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.

## 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 (3.12% for 2024).

In the 2014 Reserve and Reserve Fund Strategy Update (Report No. 2014-60), based on the Building Condition Assessments (BCAs) and related identified required capital works across the housing portfolio, the contribution strategy was revised to be the greater of those legislated benchmarks, or 3%. In the 2016 Reserve and Reserve Fund 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 2024 Index of 3.12% results in total contributions of \$3,056,900 to be included in the 2024 Operating Budget.

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.

Although TBDSSAB has received 100% Federal/Provincial funding for capital programs over the past few years (from 2016 through 2022, \$12.3M has been received), which has had a favourable impact on future capital financing requirements, considering the significant inflationary increases experienced in recent years, and the relatively large, complex capital projects anticipated through the long-term capital planning forecast, the Board approved an increase in the maximum annual withdrawal amount for capital projects from \$3.75M to \$4.25M in the 2022 Reserve Fund Strategy.

In addition, Administration will receive the updated Building Condition Assessments (BCAs) on its properties later in 2023. This report provides information on each property within TBDSSAB's asset portfolio, and the recommended work required to maintain the properties as well as the estimated costs associated with each project. This will impact the forecast for future years for both the work required and the required financial contributions necessary to complete said projects. Based on the expected updates, there is no change recommended to the level of withdrawal for capital projects this year. Administration would continue to utilize Provincial and Federal grants where appropriate.

As per the December 31, 2022, Audited Financial Statements, the balance in the Housing Portfolio Capital Reserve Fund was \$17,509,578.

### Levy Stabilization

The establishment of the Levy Stabilization Reserve Fund was approved by the Board in the 2014 Reserve and Reserve Fund Strategy Update 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 2024 proposed Budget.

As per the Audited Financial Statements as at December 31, 2022, the balance in the Levy Stabilization Reserve Fund was \$3,534,300.

### 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. Administration has used this data and has developed a long-term capital plan for the Headquarters office building.

A schedule of annual contributions was provided from the BCAs and has been included within the annual Operating Budgets. Similar to the Housing Portfolio Capital Reserve Fund, updated BCAs will be received later in 2023 which will impact future years capital requirements for the Headquarters office building; however, for 2024, the contribution is based on the existing BCA, \$207,100 and will be recommended for inclusion within the 2024 proposed Budget. No changes are recommended to this strategy. The balance of the Reserve Fund, per the Audited Financial Statements as at December 31, 2022, was \$2,020,521.

### **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 \$3.7 million, based on the 2023 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, 2022 was 14% of the 2023 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.

### **STRATEGIC PLAN IMPACT**

This Report relates to the Board's strategic direction of Financial Stewardship, with a focus on ensuring accountability of TBDSSAB resources and long-term sustainability.

## 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 2023 Reserve and 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 Reserves and Reserve Funds be completed annually, and provided to the Board each year, prior to Budget deliberations.

## REFERENCE MATERIALS

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

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SUBMITTED BY:	William (Bill) Bradica, Chief Administrative Officer

**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
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
Early Years Reserve Fund	To fund the establishment of new child care spaces or relocation of child care spaces, and operating requirements to enhance the child care and early years' system	No change	One-time unconditional grant provided by the Ministry of Children and Youth Services, and one-time Mitigation Funding*	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	No change	Operating funds, specifically requested per reserve fund analysis*	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



Name	Current Purpose/Intended Use	Proposed Changes	Funding Source*	Withdrawals/Usage
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

\* 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

Attachment #2  
 Report No. 2023-38

Reserve Fund	Balance, December 31, 2022	Board Approved Direction for 2023 Inflow/(Outflow)	Estimated Balance at Year-End 2023	2023 Strategy Update Recommendations	2024 Preliminary Proposed Budget Usage	Estimated Balance After 2024 Budget Approvals
	\$	\$	\$	\$	\$	\$
Capital Regeneration	7,027,219	-	7,027,219	-	-	7,027,219
Community Housing	1,972,881	(10,000)	1,962,881	-	(10,000)	1,952,881
Early Years	3,611,066	-	3,611,066	-	-	3,611,066
Employment Compensation and Benefits	1,087,739	-	1,087,739	-	-	1,087,739
Housing Portfolio Capital	17,509,578	(403,600)	17,105,978	-	(1,193,100)	15,912,878
Levy Stabilization	3,534,300	-	3,534,300	-	(384,300)	3,150,000
Office Building Capital	2,020,521	97,000	2,117,521	-	-	2,117,521
<b>Total</b>	<b>36,763,304</b>	<b>(316,600)</b>	<b>36,446,704</b>	<b>-</b>	<b>(1,587,400)</b>	<b>34,859,304</b>