



The Regional Municipality of Durham Report

To: Finance and Administration Committee
From: Commissioner of Finance
Report: #2019-F-33
Date: October 8, 2019

Subject:

Long-term Financial Planning Framework for the Region of Durham

Recommendation:

That the Finance and Administration Committee recommends to Regional Council:

- A) That the long-term financial planning framework in Appendix #1 including vision statement be endorsed;
- B) That the following new reserve funds be established in the amounts shown below and for the purposes outlined in Attachment #1 with future use of reserve funds based on Regional Council approval generally through the annual budget process:
 - i) Economic Development (\$3.8 million);
 - ii) Innovation and Modernization Initiatives (\$5.0 million);
 - iii) Servicing of Employment Lands and Key Locations- Water, Sewer, and General Tax (\$19.4 million);
 - iv) Vision Zero Initiatives (\$5.0 million); and
 - v) Climate Mitigation and Environment (\$5.0 million).
- C) That the following existing Reserve Funds be topped up as follows and for the purposes outlined in Attachment #1:
 - i) Regional Revitalization Reserve Fund (\$5.0 million);
 - ii) Durham Region Forest (\$1.0 million); and
 - iii) Regional Roads Reserve (\$0.4 million).
- D) That the following repeal of reserve funds and transfers be approved to finance the \$44.6 million required to create and top-up the reserve funds:
 - i) Transfer \$30.0 million from the General Levy Stabilization Reserve Funds;
 - ii) Repeal the following reserve funds:

- a. Regional share of non-residential development for water and sewer (\$8.9 million)
 - b. Foreign exchange reserve fund (\$4.8 million)
 - c. Industrial Land Reserve Fund (\$0.5 million)
 - d. Highway #2 Reserve Fund (\$0.4 million)
 - e. Police Capital Reserve Fund (\$0.0 million)
- E) That the remaining funds in the General Levy Stabilization Reserve Fund (\$204.7 million) be utilized to create two new funds as follows:
- i) Operating Impact Stabilization Fund (\$50.0 million); and
 - ii) Capital Impact Stabilization Fund (\$154.7 million).
- F) That the Employee Benefits Reserve usage be extended to fund the post year end payment for 50% of the unused incidental sick hours for employees and employee groups covered by the Short Term Income Protection Program; and
- G) The Regional Solicitor be authorized to prepare the necessary by-laws to establish the recommended new reserve funds and repeal the recommended deletion of reserve funds.
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Report:

1. Executive Summary

Long Term Financial Planning Framework:

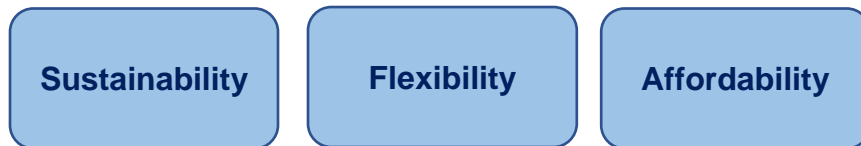
- 1.1 The following long-term financial planning framework (detailed in Appendix #1) is recommended with the following key elements:
- a. An updated financial planning framework to guide planning and Regional Council decision-making based on best practice principles, policies and processes with the goal of ensuring adequate long-term financial flexibility with the ability to adapt to changing Regional priorities and requirements;
 - b. Key financial principles, policies and practises that demonstrate a commitment to long-term financial sustainability, flexibility and affordability guided by the following vision statement:
Regional Council's strategic service delivery and infrastructure priorities are proactively addressed, with a commitment to financial sustainability, flexibility and affordability;
 - c. Enhanced consultation processes with internal stakeholders with a focus on options to increase efficiencies, innovation and ensure the long-term financial health of the organization; and,
 - d. A streamlined reserve and reserve funds strategy to modernize existing funds to reflect current and known future requirements, including multi-year capital and operational plans and related service and technology needs, asset and financial strategies, contingency and liability coverage, and property tax and user rate stabilization.

Durham Region Financial Plan and Framework:

Recommended Vision

Regional Council's strategic service delivery and infrastructure priorities are proactively addressed, with a commitment to financial sustainability, flexibility and affordability.

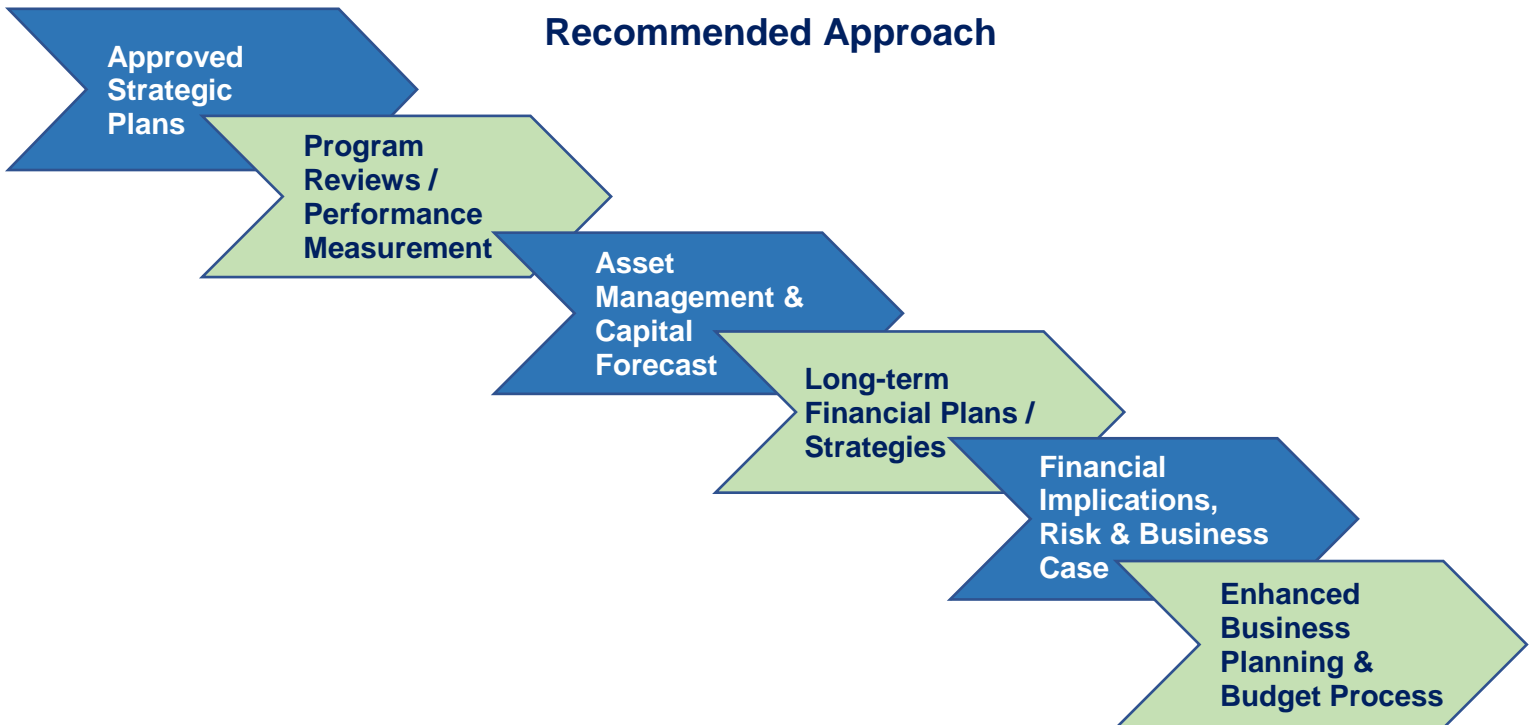
Financial Planning Principles



Long-term Financial Goals / Objectives



Recommended Approach



2. Purpose

- 2.1 This report provides an updated Durham Region long-term financial plan and framework which:
- a. Ensures transparency and accountability;
 - b. Is consistent with prevailing best practice and new regulatory requirements (e.g. Ontario Regulation 588/17 “Asset Management Planning for Municipal Infrastructure” and Schedule 3 (2019) Development Charge Act, 1997 Amendments);
 - c. Considers current long-term fiscal, social and economic challenges, uncertainties and opportunities (e.g. the servicing of employment lands, senior government transit investments, asset management and community needs);
 - d. Supports the principle of long-term sustainability by maintaining financial forecasting, consideration of multi-year financial implications, risk assessments and a business case approach to large scale capital projects and major program changes;
 - e. Provides financial tools and policy supports to safeguard long-term financial capacity, stability and flexibility to accommodate Council’s strategic priorities (e.g. technological improvements, customer service modernization, process innovations and efficiencies);
 - f. Provides context and support to business planning and budget decisions, with a focus on balancing expenditure and revenue requirements with longer-term property tax and user rate payer affordability and stability considerations;
 - g. Provides assurance to external stakeholders (e.g. bond raters, investors and the public) that the Region is well managed and a desirable place to invest; and
 - h. Ensures capabilities to seize new opportunities as well as address future challenges, including: provincial fiscal restraint; changes to the provincial funding structures and legislation; and, demand for servicing to support diversity, urbanization and employment; and poverty reduction.

3. Background

- 3.1 Based on Regional Council approval of Report #2019-F-6 in February 2019, this report represents a detailed review of the Region’s approach to long-term financial planning process with a view to updating and streamlining the framework and associated financing strategies, policies and reserve funds, while ensuring long-term efficiency, effectiveness and sustainability. The review emphasized Durham specific issues such as:
- a. Increased focus on service plans;
 - b. Climate change mitigation strategies and implications for infrastructure resiliency/adaptive capacity and future service delivery requirements and costs;

- c. Balancing investment in growth-related infrastructure with asset management renewal/replacement needs;
- d. Public demand for new technology and innovation and Regional motivation to modernize service delivery and enhance efficiencies, effectiveness and customer service;
- e. The priority of accelerating the servicing of employment lands to attract new jobs to Durham Region;
- f. Significant senior-level infrastructure programs that increasingly require matching or proportionate municipal funding contributions (e.g. the Investing in Canada Infrastructure Program); and,

4. Recommended Financial Plan Vision Statement

- 4.1 The following recommended long-term financial plan vision statement incorporates core financial planning principles:

Regional Council's strategic service delivery and infrastructure priorities are proactively addressed, with a commitment to financial sustainability, flexibility and affordability.

5. Financial Planning Principles and Approach

- 5.1 The updated long-term financial planning framework provides a comprehensive and integrated approach, including financial policies and tools to support efforts and ensure increased collaboration and a coordinated, concerted focus on the new priorities of Regional Council. The approach recognizes the reality of financial and resource limitations and is based on the principles of financial sustainability, flexibility and affordability.

- 5.2 The recommended financial planning framework approach includes:

- a. Guidance provided through strategic community and corporate planning;
- b. Annual program reviews and performance measurement to ensure continuous improvements, efficiencies and effectiveness;
- c. An enhanced annual business planning and budget cycle to improve opportunities for communication, collaboration and transparency; and ensure alignment of resources with the Region's strategic priorities.
- d. Sound asset management and capital planning to ensure infrastructure is sustained;
- e. Long-term financial planning and financial strategies to ensure financial and infrastructure sustainability; and,
- f. An evidence-based business case approach for capital evaluations and major programs changes, and assessment of risk to ensure understanding of long-term financial implications to support Council decision-making.

- 5.3 The Framework and Strategy is provided in Appendix #1 and will be made available on the Region of Durham website and used as a communication tool on the Region's Fiscal Health.

6. Reserves and Reserve Funds: Tools for Financial Sustainability, Flexibility and Fiscal Responsibility

- 6.1 Consistent with Regional direction (Report #2019-F-1), Appendix #2 provides information on the Region's existing Reserves and Reserve Funds, including an explanation of each fund's purpose, regulatory/legal requirements, commitments, uncommitted balance, and comments pertaining to the required usage for future needs. Attachment #1 includes proposed new reserve funds, recommended repeal of reserve funds, changes to recommended usage, renaming of reserve funds, and recommendations for transfers. As a next step, target levels will be developed and/or additional proposed utilization.
- 6.2 Maintenance of relevant and adequate reserves and reserve funds provides the Region with financial flexibility to:
- a. Manage the impacts from growth requirements;
 - b. Address known future liabilities;
 - c. Provide for contingency funds to address unknown risk events and uncertainties creating fiscal imbalances;
 - d. Retain working capital for major multi-year projects; and,
 - e. Provide a funding source for known major capital requirements and mitigate the Region's long-term debt profile (to ensure a predictable and manageable level of debt and debt service costs) through up-front capital financing a portion of major capital costs as well as one-time issues of regional importance.

Over approximately 15 years, the Region has utilized reserves and reserve funds to finance approximately \$600 million of capital projects in property tax and user rate funded programs, avoiding approximately \$367 million of debt interest costs.

7. Financial Policies

- 7.1 According to the Government Finance Officers Association (GFOA) "Financial Policies" publication, the implementation of formal financial policies supports a long-term approach to financial management and:
- a. Institutionalizes good financial management practices, promoting stability and continuity (preventing the need to re-invent responses to recurring issues);
 - b. Crystalizes strategic intent for financial management creating a shared understanding of how to manage resources to create the best value to the community;
 - c. Defines boundaries for delegated powers and staff actions;
 - d. Supports bond ratings and contributes to lower costs of borrowing;
 - e. Promotes strategic thinking through a long-term perspective;
 - f. Provides an important mitigation tool for risks to long-term financial condition; and,
 - g. Complies with established best public management practices.

7.2 Appendix #1, page 9 provides a summary of the Region's key financial by-laws and policies which support financial sustainability, flexibility and affordability. Many of these policies are currently under review and the next phase of work will be to recommend policy updates to the Finance and Administration Committee and Regional Council. They will be phased in the following prioritization: Purchasing By-law, Budget Management Policy, Development Charges Background Study (to respond to Bill 108), Investment Policy and Debt Management Policy with other updates as needed.

8. Long-term Fiscal Health Update: Economic and Financial Performance Metrics

8.1 Appendix #1, Page 10 includes a one-page Financial Health Performance Measurement Scorecard template - proposed to be presented for information on an annual basis to Finance and Administration Committee and Regional Council. This summary will use key indicators or performance metrics so that Regional Councillors can regularly monitor and understand variables impacting the Region's economic and fiscal health. The measures will be further developed as a next step.

9. Conclusions

9.1 The proposed long-term financial planning framework, including a new vision, core financial principles, approach, policies and performance measures for fiscal health will support the efficient and cost-effective delivery of programs and services, address service demands and support growth.

9.2 Next steps include the modernization of the business planning and budget process and updates to key financial policies as noted, as well as, the further development of performance metrics for the framework and development of target ranges for applicable reserve funds.

10. Attachments / Appendices

Attachment #1: Recommended Repeal and Establishment of New Reserve Funds and Transfer of Funds

Appendix #1: Long Term Financial Planning Framework

Appendix #2: Reserve and Reserve Fund Analysis

Respectfully submitted,

Original Signed By

Nancy Taylor, BBA, CPA, CA
Commissioner of Finance

Recommended for Presentation to Committee

Original Signed By

Elaine C. Baxter-Trahair
Chief Administrative Officer

New Reserve Funds	Capital or Operating	Purpose	Uncommitted Balance as of June 30, 2019	Recommendations
Economic Development Reserve Fund - NEW	Operating	To support economic development strategic activities including strategies to bring available serviced land to active market	-	Transfer \$3.8 million from the Foreign Exchange Reserve Fund and incorporate annual replenishment through a contribution of 10% of net annual supplementary taxation revenue. Funds to be accessed through budget approval or direct Council authorization.
Innovation and Modernization Initiatives Reserve Fund - NEW	Operating and Capital	To support modernization of legacy processes and systems across departments	-	Transfer \$5.0 million from General Levy Stabilization Reserve Fund as SEED money. Annual replenishment through transfer of 2.5% of the prior year annual operating surplus.
Servicing of Employment Lands and Key Locations Reserve Fund(s) – NEW -one General Tax, one Water and one Sewer	Capital	To support projects identified through the servicing of employment lands project of 2019 and future updates	-	Transfer \$19.4 million as follows: <ul style="list-style-type: none"> • \$8.9 million from the Region Share of Non-Residential Development - Water and Sewer Reserve Fund (50% to Water and 50% to Sewer); • \$0.5 million from the Industrial Land Reserve Fund (to General Tax); and • \$10.0 million from the General Levy Stabilization Reserve Fund (to General Tax). Ongoing support will be determined through future year's budget as successful initiatives trigger growth related revenues.
Vision Zero Reserve Fund - NEW	Capital	To support projects to meet Regional Council Vision Zero targets	-	Transfer \$5.0 million from the General Levy Stabilization Reserve Fund. Ongoing support to be determined through annual business planning and budget process.
Climate Change Mitigation and Environmental Initiatives Reserve Fund - NEW	Capital	To support initiatives to enhance the Region's response to climate change and environment concerns	-	Transfer \$5.0 million from the General Levy Stabilization Reserve Fund. Ongoing support to be determined through annual business planning and budget process based on priorities highlighted in annual Climate Change Report or future equivalent.

Existing Reserve Funds	Capital or Operating	Purpose	Uncommitted Balance as of June 30, 2019	Recommendations
General Levy Stabilization Reserve Fund	Capital and Operating	To stabilize general property tax rate increases as a risk mitigation tool for budget shortfalls and to upfront finance large scale projects or phase-in significant operating program impacts	\$234.7 million	<p>Recommend transfers to the following new reserve funds:</p> <ol style="list-style-type: none"> 1. Innovation and Modernization Initiatives - \$5.0 million 2. Servicing of Employment Lands and Key Locations - \$10.0 million 3. Vision Zero Initiatives - \$5.0 million 4. Climate Mitigation and Environment- \$5.0 million <p>Recommend transfer of \$5.0 million to top up the existing Regional Revitalization Program Reserve Fund</p> <p>Recommend that this fund be repealed and the balance of this reserve fund net of transfers above (i.e. \$204.7 million) be divided into two new separate Reserve Funds as follows:</p> <ul style="list-style-type: none"> • Operating Impact Stabilization Fund (\$50.0 million) to stabilize general property tax rate increases as a risk mitigation tool for budget shortfalls and be replenished with 47.5% of any annual operating surplus; and • Capital Impact Stabilization fund (\$154.7 million) to upfront finance large scale projects as identified in Appendix #3. It would be replenished from annual property tax surplus from closing of general tax supported capital projects and 50% of any annual operating surplus.

Existing Reserve Funds	Capital or Operating	Purpose	Uncommitted Balance as of June 30, 2019	Recommendations
Region share of Non-residential Development – Water and Sewer	Capital	Fund Regional share of water supply and sanitary sewerage capital projects to service non-residential development	\$8.9 million	Two reserve funds to be repealed with all funds transferred to the Servicing of Employment Lands and Key Locations Reserve Fund
Foreign Exchange	Operating	Funds to mitigate future exchange fluctuations	\$4.8 million	Reserve fund to be repealed. Transfer \$3.8 million to the Economic Development Reserve Fund and \$1 million to the Regional Forest Reserve Fund
Industrial Land	Capital	Contribute to the cost of developing industrial lands	\$0.5 million	Reserve Fund to be repealed with all funds transferred to the Servicing of Employment Lands and Key Locations Reserve Fund
Highway #2	Capital and Operating	Provide funding for capital and maintenance purposes related to sections on Highway #2 assumed by the Region	\$0.4 million	Reserve Fund to be repealed with all funds transferred to the Regional Roads Reserve to provide funding for future BRT costs
Regional Revitalization Reserve Fund	Operating	Targeted regional funding for the Region's Revitalization Program in conjunction with lower tier municipalities within Community Improvement Plans	\$9.5 million	Top up with \$5.0 million transfer from the former General Levy Stabilization Reserve Fund to acknowledge projected increased usage due to significant priority around redevelopment.
Durham Region Forest		Funding to assist in the management of the Regional Forest	\$0.1 million	Top up with \$1.0 million from Foreign Exchange Reserve Fund due to projected depletion of this fund. Supports climate change mitigation efforts.
Police Capital Reserve Fund	Capital	For future Police capital costs	-	Recommend fund be repealed as funds were depleted during 2019 budget process. Police requirements addressed through other financing mechanisms.

Existing Reserves	Capital or Operating	Purpose	Uncommitted Balance as of June 30, 2019	Comments and / or Recommendations
Employee Benefits	Operating	To fund employment related contract commitments with respect to current extended health benefits	\$21.2 million	Recommend additional usage to fund the post year end payment for 50% of the unused incidental sick hours for the employees and employee groups covered by the Short Term Income Protection Program
Regional Roads Reserve	Capital	To provide sustainable property tax funding for the property tax portion of growth-related projects	\$46.2 million	Top up with \$0.4 million from the Highway #2 Reserve Fund to support future BRT costs.

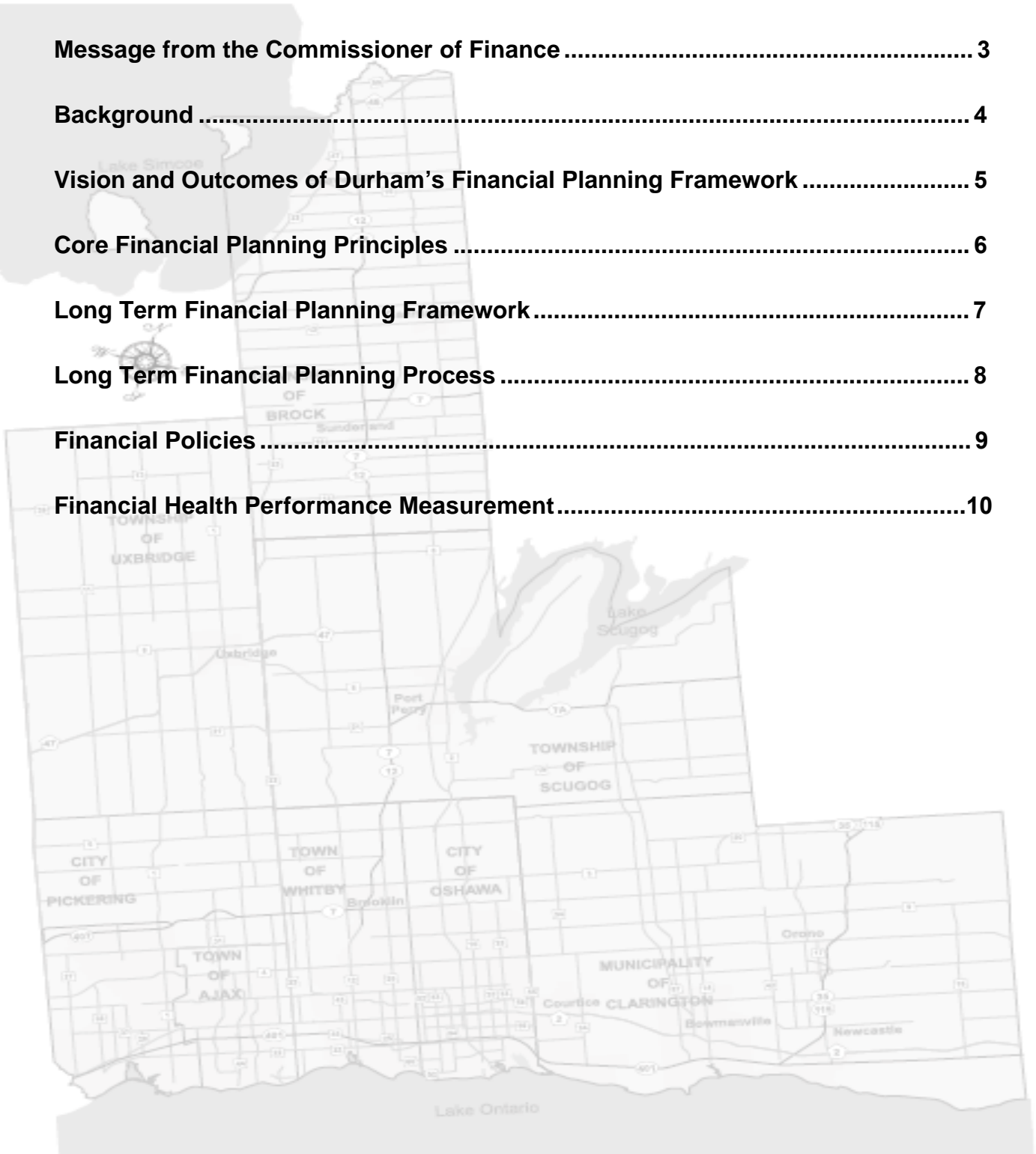
Long-Term Financial Planning Framework



Region of Durham Finance Department
October 2019

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Message from the Commissioner of Finance



From public transit, to childcare, to clean drinking water, the Region of Durham provides a number of essential services that our community members rely on every day. We pride ourselves on meeting the needs of taxpayers and delivering these services through leadership, innovation and co-operation. The Region of Durham is one of the fastest growing communities in the Greater Toronto Area, and as our community continues to grow, our service delivery needs grow with it.

The goal of our long-term financial plan is to ensure financial sustainability, flexibility, and affordability for our residents as we meet the service demands of our growing and diverse community. The plan provides a framework for balancing the current financing needs of our daily operations, with an eye towards the long-term financial health of the organization. The plan uses a combination of industry best practices to ensure long-term financial risks are identified early, and any long-term debt remains manageable and affordable.

The Region of Durham has always had a commitment to strong financial management. Our Triple A credit rating is a testament to our sound financial planning, policies, and strategies. Our long-term financial plan ensures our continued support for transparency, accountability, and equity in all financial decision making. This plan is meant as a roadmap for continuing our strong financial management now, and in the future.



Nancy Taylor, BBA, CPA, CA
Commissioner of Finance

Background

Durham Region is part of the Greater Toronto Area and is a fast-growing community. Durham's population is forecast to continue to grow to 1.2 million residents by 2041. The diversification of Durham's economy has been accelerated by the presence of a relatively young, educated and skilled labour force, advanced utilities, and extensive and integrated infrastructure. The Region supports the continued growth of 12,600 businesses that provide over 200,000 jobs in the Region.

Durham has long standing financial policies and principles and follows best practices, which have been recognized for long-term financial sustainability and a triple A credit rating.

Looking ahead, pressure to increase service levels for residents and businesses will continue as the Region grows. This supports an increased emphasis on service plans. There will also continue to be the need to invest in infrastructure and fund new emerging strategic priorities. It is also anticipated Durham will be facing a number of emerging challenges.

Durham specific opportunities and challenges include:

-  Balancing investment in growth-related infrastructure with asset management needs;
-  Increasing service levels (with emphasis on service plans) to accommodate growth;
-  An expanding and increasingly diverse population with changing service needs;
-  New technology and innovation to modernize services, achieve efficiencies and enhance client experience;
-  Accelerate the pre-servicing of employment lands to attract new jobs to Durham;
-  Climate change mitigation and adaptation strategies for assets and service delivery;
-  Limited tools to raise or diversify revenues, taxpayer fatigue and affordability; and
-  Implications from senior government and international economics, policies and grants

The opportunities and challenges highlight the importance of the Region's long-term financial planning framework to support and advise business plans and budgets, five-year operational and 10-year capital forecasts.

Vision and Outcomes

Durham's updated long-term Financial Planning Framework provides an integrated and co-ordinated focus on funding Regional Council's new priorities, accommodating growth, and investing in infrastructure and service levels, with stable taxes and user rates.

Vision

Regional Council's strategic service delivery and infrastructure priorities are proactively addressed, with a commitment to financial sustainability, flexibility and affordability.

Outcomes

- ❖ Ensures transparency and accountability;
- ❖ Consistent with best practice and regulatory requirements;
- ❖ Considers fiscal and economic challenges, uncertainties and opportunities;
- ❖ Supports sustainability by maintaining financial forecasting, risk assessments and business case approach;
- ❖ Provides financial tools and policies to safeguard long-term financial capacity, stability and flexibility to accommodate Council's strategic priorities;
- ❖ Supports business planning and budget decisions, by balancing expenditure and revenue needs with longer-term property tax and user rate payer affordability and stability;
- ❖ Provides assurance to external stakeholders (e.g. bond raters, investors and the public) that the Region is well managed; and
- ❖ Ensures ability to seize new opportunities as well as address future challenges.

Guiding Core Financial Planning

Durham's long-term Financial Planning Framework is based on the following three core principles, and recognizes the reality of limited financial resources:

Long-Term Financial Planning Principles

Financial Flexibility

Addressing and adapting to changes (both in the internal and external environment), uncertainties and liabilities while avoiding an over-reliance on debt and other potentially negative impacts to multi-generational taxpayer and user rate affordability.

Financial Sustainability

Ensuring the continued ability to fund Regional Council approved programs, priorities, service levels and infrastructure needs over the long term.

Financial Affordability

Meeting the needs of a growing, diverse and evolving population and business community without undue burden on residential and non-residential property taxpayers and user rate payers.

Long-Term Financial Planning Framework

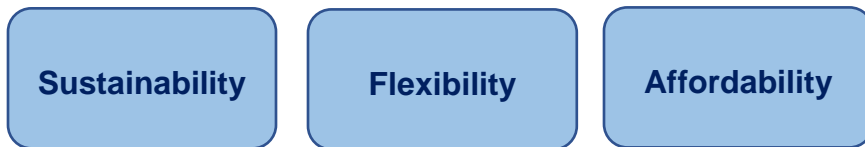
Durham’s long-term financial planning framework provides a corporate based integrated and co-ordinated approach, guided by the vision, objectives and the three core financial principles.

Durham Region Financial Plan and Framework:

Recommended Vision

Regional Council’s strategic service delivery and infrastructure priorities are proactively addressed, with a commitment to financial sustainability, flexibility and affordability.

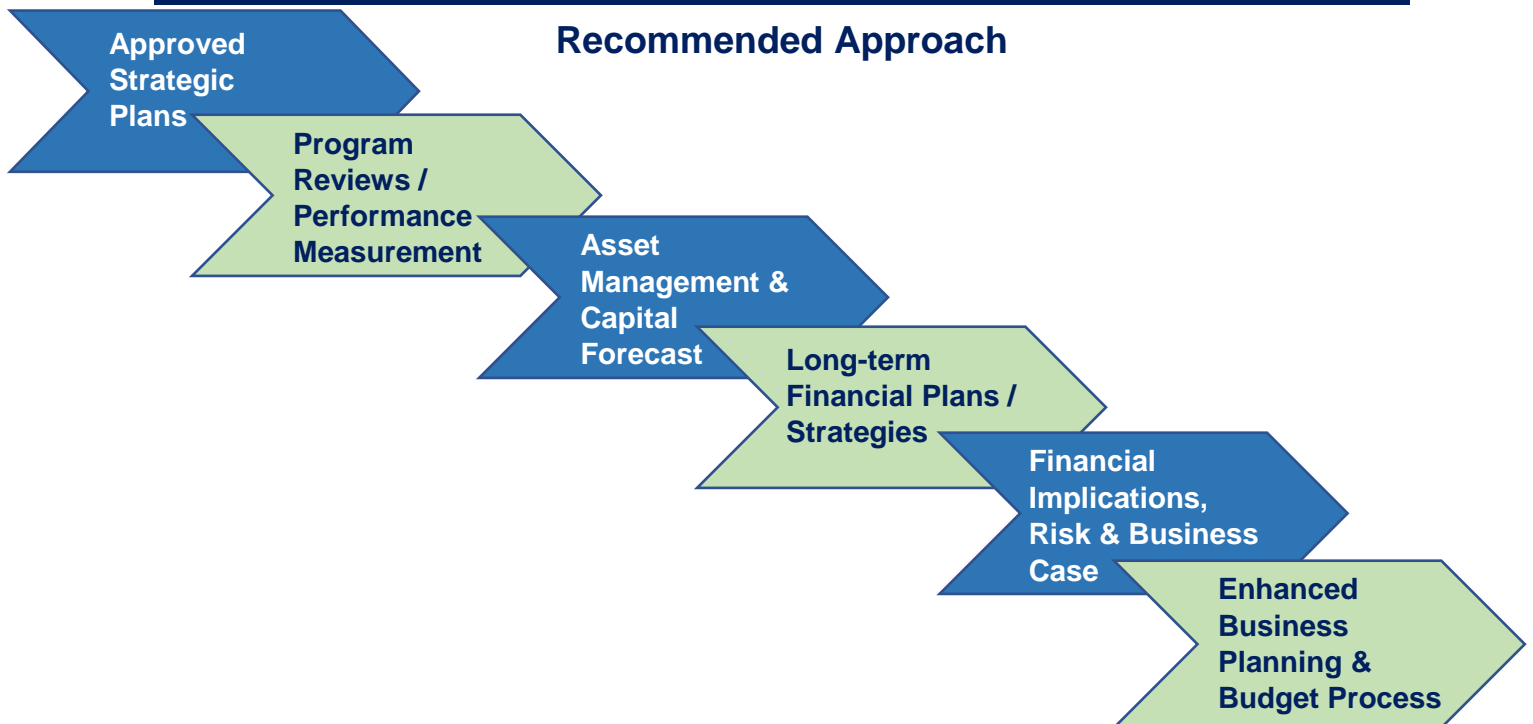
Financial Planning Principles



Long-term Financial Goals / Objectives



Recommended Approach



Long-Term Financial Planning Process

Approved Strategic Plans

- ❖ Strategic planning guides the allocation of resources through identification of priorities.

Program Reviews & Performance Measurement

- ❖ Program based budgets include proposed investments, costs, financing and deliverables for each specific program to assist with benchmarking.
- ❖ Reference to strategic plans, goals, and objectives and service plans.

Asset Management & Capital Forecasts

- ❖ Multi-disciplinary departmental staff annual review of all Regional assets.
- ❖ Short and long-term capital forecasts.
- ❖ Best practice of allocating funds to address priority asset rehabilitations and replacements based on condition, service levels, risk and climate change.

Long Term Financial Plan & Strategies

- ❖ Long term outlook through the Economic Update and Long-Term Forecast reports.
- ❖ Identify key corporate cost drivers and financial implications.
- ❖ Economic and fiscal environment and implications to Durham.
- ❖ Development of strategies to finance priorities, growth and innovation/modernization.

Financial Implications, Risk & Business Cases

- ❖ Multi-disciplinary departmental staff collaborative assessment of major capital projects.
- ❖ Risk assessments and mitigation strategy development.
- ❖ Readiness for senior government grant funding opportunities.
- ❖ Flexibility to enhance innovation and streamlining.

Enhanced Business Planning & Budget Process

- ❖ Modern, streamlined, transparent and inclusive business planning and budget process.
- ❖ Robust multi-year program based capital and operating budgets and forecasts.
- ❖ Detailed analysis of budgetary needs and priorities.
- ❖ Imbedded public engagement in Business Planning and Budget Process.
- ❖ Business Planning and budget process allocations are aligned with Region's Strategic Plan and key planning documents.




Supporting Financial Policies and Reserve/Reserve Funds

The Region has many well-established supporting financial policies and by-laws that:

- ❖ Institutionalizes good financial management practices, promoting stability and continuity;
- ❖ Crystallizes strategic intent for financial management creating a shared understanding of how to manage resources to create the best value to the community;
- ❖ Defines boundaries for delegated powers and staff actions;
- ❖ Supports bond ratings and contributes to lower costs of borrowing;
- ❖ Promotes strategic thinking through a long-term perspective;
- ❖ Provides an important mitigation tool for risks to long-term financial condition; and,
- ❖ Complies with established best public management practices.

Supporting Financial Policy/By-law/Best Practice	Purpose
Development Charge Background Study/By law & Growth Pays for Growth	Used to partially fund the net cost of growth-related capital from development.
Debt Management	Issuance of debentures for major capital projects.
Pay As You Go Financing	Use of accumulated funds for capital when feasible and appropriate, supplemented with debt if necessary.
Grants Policy	Provides parameters of Regional grant funding and governs the Regions grant funding authority.
Budget Management Policy	Accountability framework by establishing authority and reporting requirements for spending decisions.
Purchasing By-Law	Governs the acquisition of goods and services.
Investment Policy	Governs the Region's investment of funds.
Full Cost Recovery User Rates (Water & Sewer)	Water and Sewer funded from user rates (no property tax) on a full cost recovery basis.
Tangible Capital Assets Policy	Defines capital assets and capitalization.
Corporate Strategic Asset Management Policy	Guides the Region's asset management process and informs business plans and budgets of capital repair, rehabilitation and replacement needs.
Reserve and Reserve Funds	Maintenance of adequate levels provides financial flexibility. Used for expenditures as appropriate where beneficial and feasible to do so. Recommended creation of five new reserve funds.

Financial Health Performance Measurement Scorecard

Sustainability	Performance	Trend
Capital Reserves as a % Of 10 Year Capital Budget		
Average Corporate Asset Condition Rating		
Annual Assessment Growth		
Debt Servicing as a % of Annual Property Tax Revenues		

Flexibility	Performance	Trend
Net Debt to Net Revenue Ratio		
Cash and Investments as a % of Debt Target		
Annual % Debt Repayment Target		
Credit Rating (and Relative to Peers)		

PROPOSED

Affordability	Performance	Trend
Property Tax Increase Relative to Inflation Factors		
User Rate Increase Relative to Inflation Factors		
External Funding as % of Revenues		
% of Non-Residential Property Tax Revenue (to Share of Total Property Tax Revenue)		

Reserve and Reserve Fund Analysis:

- 1.1 The Region has established a number of reserves and reserve funds with related policies to meet future financial commitments. The Reserves and Reserve Funds provide the Region with the financial flexibility to address planned and unplanned expenditures (operating and capital), mitigate significant increases in user rates and property taxes through one time investments, and minimize debenture financing requirements.
- 1.2 Maintaining adequate reserves is part of the Region's long-term financial planning strategy and complements the Region's pay-as-you-go financing philosophy. The practice is recognized as sound business practice by the financial community including the bond raters.
- 1.3 The following tables provide a list of the reserve and reserve funds and their purpose within the following three broad categories:
 - a. **Obligatory Reserve Funds (Development Charges and Gas Tax Revenue)** – reserve funds that are required by legislation or agreement to be segregated from the Region's general revenues for a specific purpose. These funds are required to be classified in the financial statements as Deferred Revenue;
 - b. **Discretionary Reserve Funds** – reserve funds created at the discretion of Council where revenues are earmarked to finance future expenditures for purposes designated by Council; and
 - c. **Reserves** – an allocation of accumulated net revenues that makes no reference to a specific asset and does not require the physical segregation of money. They are established primarily for the purpose of providing working funds.
- 1.4 **Reserves and Reserve Funds Policy** – Debt issuance is balanced by Regional maintenance of adequate reserves and reserve funds. Recognizing their strategic importance, Regional funds provide for: contingency; property tax and user rate stabilization; the funding of long-term liabilities; working capital; support for growth infrastructure requirements (e.g. development charge revenues); and, the prudent up-front financing of major forecast capital expenditures.

Per Council direction (report 2019-F-6), the Commissioner of Finance and Treasurer and Financial Management Team, in conjunction with the Chief Administrative Officer undertook a 2019 review of each Reserve and Reserve Fund to confirm purpose and needs, including the following inquiries:

- a. Does the purpose for each fund still exist? If not, can individual funds be re-purposed to known critical Regional needs, Council priorities or other established reserve and/or reserve funds in known shortfall positions?
- b. Can inter-fund transfers across remaining funds address funds' excesses and shortfalls to better balance the totality of funds which continue to have a current or future purpose?

1.5 Goals in the assessment included ensuring accountability and transparency in the determination of a prudent and consistent set of policies and controls for each fund with the purpose of:

- Avoiding the undue depletion of any reserve or reserve fund beyond prudent levels;
- Avoiding excess accumulation of monies in funds over time;
- Ensuring financial strategies, including reserve and reserve fund financing, can be directly tied to regulatory requirements (e.g. development charges, asset management regulations and/or senior government grant, subsidy or gas tax funding requirements etc); approved asset management (life-cycle) plans; approved financial management policies and controls, other Council directives and/or financial best practices (e.g. the Government Finance Officers Association of North America or GFOA); and
- Formalizing financial policies where required, through Regional Council review and approval.

Annual long-term financial planning and strategy reviews occur in conjunction with annual asset management plan and business planning and budget processes recognizing that current-year decisions have multi-year or multi-generational implications.

A. Obligatory Reserve Funds (Development Charges and Gas Tax Funding)

- i. Development Charges - Growth related capital works can be funded through the imposition of development charges on new development as permitted under the Development Charges Act (DCA) legislation. A development charge by-law must be passed by Regional Council in order to collect this revenue from new development, in accordance with DCA.

The following provides a summary of the Region's current development charge reserve funds:

DC Reserve Funds	Uncommitted Balance as of June 30, 2019	Capital or Operating	Purpose	Annual Contribution / Collection	By-law # / Policies ⁽¹⁾	Comments
Water Supply Residential and Non-residential DCs	\$114.5 million	Capital	To provide funding for future growth - related capital projects needed to support residential and non-residential development	Collection of development charges is based on the type and number of new residential units and square footage for non-residential development	No. 28-2018	As required by legislation, funds must be used for their specific purpose – growth related capital projects identified in the DC Background Study. Funds allocated to specific projects identified in annual budgets
Sewer Residential and Non-residential DCs	\$48.9 million	Capital			No. 28-2018	
Roads Residential and Non-residential DCs	\$32.3 million	Capital			No. 28-2018	
Transit Residential and Non-residential DCs	\$14.3 million	Capital			No.81-2017	
Other - Police, Paramedic, Health & Social Services, Social Housing, Long Term Care, Go Transit and Studies	\$7.5 million	Capital	To provide funding for future growth - related capital projects needed to support residential development only	Collection of residential DCs only - based on the type and number of new residential units	No. 28-2018 and No. 86-2001	
Total	\$217.5 million					

Note: 1. Development Charge financing for the current year's capital program is based on the prior year's development charge reserve fund balance to ensure the Region only spends what is available, not speculating on what may be collected.

- ii. Provincial and Federal Gas Tax- The following two reserve funds relate to the funding received from the Provincial and Federal Gas Tax and restrictions are placed on the uses of these funds by the Federal and Provincial governments:

Provincial and Federal Gas Tax Reserve Funds	Uncommitted Balance as of June 30, 2019	Capital or Operating	Purpose	Annual Estimated Contribution / Collection	By-law # / Policies	Comments
Provincial Gas Tax	\$8.5 million	Capital and Operating	Provides sustainable funding to invest in public transit including capital and operating expenditures to promote increased ridership, replacement of vehicles and refurbishment costs. The Region has applied Provincial Gas Tax primarily to capital costs (i.e. mainly bus replacement program and Presto implementation) with occasional application to bus refurbishments	\$8.7 million	No. 05-2006, 16-2011 and 35-2006	Uncommitted balance will support the Investing in Canada Infrastructure Program (ICIP) – Region's share of capital projects under the ICIP (Durham share estimated at \$64 million)
Federal Gas Tax	-	Capital	Provides sustainable funding to invest in municipal infrastructure (renewal or enhancement) including solid waste, roads, bridges, transit and water and wastewater. Durham has applied this revenue source to solid waste management services (material recovery facility and energy from waste facility) and more recently to road rehabilitation	\$19.4 million plus 2019 one-time top up of \$19.4 million		Report under development with consultation from departments regarding usage of one-time top-up funds
Total	\$8.5 million					

B. Discretionary Reserve Funds

i. Rate Stabilization Reserve Funds- The Region has three separate rate stabilization reserve funds as follows:

Rate Stabilization Reserve Funds	Uncommitted Balance as of June 30, 2019	Capital or Operating	Purpose	Annual Estimated Contribution / Collection	By-law # / Policies	Comments
Water Supply Treatment Plant / Rate Stabilization Reserve Fund	\$96.1 million	Capital and Operating	To provide funding to stabilize water and sewer user rates by providing a contingency for unplanned circumstances (i.e. unplanned capital, revenue deficiencies etc) and potential cost share for future grant programs	- \$0.6 million budget contribution - annual budget surplus	No. 145-1990	Address user rate share (estimated at \$235 million) of major water and sewer capital projects including: 1. Whitby, Ajax and Bowmanville WSPs -\$75.0 million 2. Alternative WSP, Port Perry - \$10.0 million
Sanitary Sewerage Treatment Plant / Rate Stabilization Reserve Fund	\$152.5 million	Capital and Operating	Provide contributions to the user rate share of major water and sanitary sewer capital projects (i.e. non-growth and non-residential DC shortfall) and asset management needs	- \$0.6 million budget contribution - annual budget surplus	No. 201-1990	3. Courtice Trunk Sanitary Sewer - \$16.0 million 4. Duffin Creek WPCP - nearly \$100 million (Durham Share) 5. Water / Sewer share of Depot Expansions - \$34.0 million Asset Management Needs: 6. Water - Assets considered in poor and very poor condition – \$324 million 7. Sanitary Sewer - Assets considered in poor and very poor condition - \$364 million

Rate Stabilization Reserve Funds	Uncommitted Balance as of June 30, 2019	Capital or Operating	Purpose	- Annual Estimated Contribution / Collection	By-law # / Policies	Comments
General Levy Stabilization Reserve Fund	\$234.7 million ⁽¹⁾	Capital and Operating	To provide funding to stabilize general property tax rates increases as a risk mitigation tool for budget shortfalls and potential cost share for future capital grant programs and to upfront finance large scale projects or phase-in significant operating program impacts	- budget contribution - annual budget surplus	No. 6-1996	<p>Recommend \$30.0 million be transferred to establish four new reserve funds and top-up one existing reserve fund.</p> <p>Remaining \$204.7 million to be divided into two reserve funds – Operating Impact Stabilization Reserve Fund (\$50 million) and Capital Impact Stabilization Reserve Fund (\$154.7 million)</p> <p>10-year capital needs for large scale projects estimated at \$906 million (net of DC and other external funding)</p> <ul style="list-style-type: none"> • Police - \$179 million • Solid Waste - \$364 million • Transit - \$114 million • Paramedic - \$7.0 million • Health / Social Services - \$20.0 million • Depots - \$20 million • BRT - \$175 million • Headquarters - \$27 million
Total	\$483.3 M					

Note:

1. The uncommitted balance in the June 30, 2019 Reserve Fund Statement provided an uncommitted balance of \$121.8 million as commitments were made against this reserve fund for major capital projects in the 10-year forecast. These projects have been added back to the uncommitted balance and revised potential commitments against this reserve fund are being provided.

- ii. Asset Management Reserve Funds- The Region has established three separate asset management reserve funds to address the priority capital needs related to water supply, sanitary sewerage and general purposes (i.e. Regional facilities excluding water and sanitary sewer services):

Asset Management Reserve Funds	Uncommitted Balance as of June 30, 2019	Capital or Operating	Purpose	Annual Estimated Contribution / Collection	By-law # / Policies	Comments
Water Asset Management Reserve Fund	\$12.2 million	Capital	For high priority capital initiatives related to repair, rehabilitation and replacement of existing water supply and sanitary sewer assets	\$5.2 million budget contribution	No. 13-2005	Needed to address future asset management needs: <ul style="list-style-type: none"> • Water and sewer assets considered in poor and very poor condition (\$688 million) • Durham Region facilities considered in poor and very poor condition (\$155 million)
Sewer Asset Management Reserve Fund	\$12.7 million	Capital		\$8.6 million budget contribution	No. 58-2005	
General Levy Asset Management Reserve Fund	\$23.0 million	Capital		-	No. 84-2007	
Total	\$47.9 million					

- iii. Roads and Bridges Reserve Funds- The following provides a number of road related reserve funds to address the needs of the Regional road network:

Roads and Bridges Reserve Funds	Uncommitted Balance as of June 30, 2019	Capital or Operating	Purpose	Annual Estimated Contribution / Collection	By-law # / Policies	Comments
Roads Rehabilitation Reserve Fund	\$23.3 million	Capital	Provides sustainable funding to address the rehabilitation needs of the road network	\$26.1 million budget contribution	Report No. 2001-J-9	Funding needed to address future bridge and roads rehabilitation needs.
Bridge Rehabilitation Reserve Fund	\$9.2 million	Capital	Provides sustainable funding to address structures replacement and rehabilitation requirements	\$5.5 million budget contribution		Transportation assets considered in poor and very poor condition – exceeds \$900 million
Roads Property Acquisition	\$0.8 million	Land	For acquisition of property related to future road construction projects	-	No. 83-1980	
Highway #2	\$0.4 million	Capital and Operating	To provide funding for capital and maintenance purposes related to sections of Highway #2 assumed by Durham Region	-	No. 91-1995	Recommend fund be repealed and funds transferred to the Roads Reserve
Total	\$33.7 million					

iv. Region-share of Non-residential Development

Region-share of Non-residential Development	Uncommitted Balance as of June 30, 2019	Capital or Operating	Purpose	Annual Contribution / Collection	By-law # / Policies	Comments
Water Supply	\$3.9 million	Capital	Fund Regional share of capital costs of water supply and sanitary sewerage capital projects to service non-residential development	-	No. 181-1987	Recommend these two funds be repealed with funds transferred to the new Servicing of Employment lands and Key Locations Reserve Fund as the majority of those needs will relate to water and sewer non-residential requirements
Sanitary Sewer	\$5.0 million	Capital		-	No. 182-1987	
Total	\$8.9 million					

v. Other Capital Reserve Funds

Capital Reserve Funds	Uncommitted Balance as of June 30, 2019	Capital or Operating	Purpose	Annual Estimated Contribution / Collection	By-law # / Policies	Comments
Solid Waste Management	\$88.7 million	Capital and Operating	For future capital requirements such as Anaerobic Digestion. Fund annual deficits such as mitigating impact of significant decline in revenue from sale of recycling materials	- \$2.6 million budget contribution - annual budget surplus/deficit	No. 61-2000	Significant capital needs in the 10-year forecast: <ul style="list-style-type: none"> • Potential EA for DYEC expansion (\$10.0 million) • Modifications to the waste management facilities - \$10.5 million • Share of new Seaton facility - \$3.5 million • AD facility - \$165 million
Transit Capital	\$36.6 million	Capital	Funding for transit capital such as ICIP and BRT	- annual budget surplus/deficit	No. 2009-F-69	Investing in Canada Infrastructure Program (ICIP) – these funds are required to address the Region’s share of capital projects under the ICIP (Durham share estimated at \$64 million)
Social Housing	\$28.8 million	Capital and Operating	For future expenditures related to DRLHC capital needs and social housing	- \$1.45 million budget contrib. - DRLHC budget surplus	No. 87-2001	23 locations with a replacement value of \$252 million. DRLHC generally in a deficit position
EMS	\$0.6 million	Capital	For future EMS capital costs	-	62-2000	Funding required for two new facilities - \$7.0 million
Police	-	Capital	For future Police capital costs	-	187-1997	Recommend fund be repealed. Police requirements addressed through other financing

Capital Reserve Funds	Uncommitted Balance as of June 30, 2019	Capital or Operating	Purpose	Annual Estimated Contribution / Collection	By-law # / Policies	mechanisms Comments
Seaton Capital	\$12.0 million	Capital	To provide funding for facilities required to support the Seaton community (e.g. police, transit, health and social services and depot)	Annual contribution based on increased property taxes received from Seaton properties	2014-J-19	Capital requirements for Seaton facilities (police, transit, paramedic, health and social services and depots) are in the 10-year capital forecast (estimated at \$87 million).
York Durham	\$2.7 million	Capital	For future capital costs related to the York Durham Sanitary Sewerage System in Pickering (shared infrastructure with York Region)	Budget contributions	No. 42-1989	
Regional Revitalization	\$9.5 million	Capital and Operating	Targeted regional funding for the Region's Revitalization Program in conjunction with lower tier municipalities within Community Improvement Plans	\$1.86 million Fund replenished from inc. property tax revenue received from increased assessment over five years from approved projects	2008-J-37	Recommend \$5.0 million top-up from General Levy Stabilization Reserve Fund to address anticipated increased usage related to redevelopment projects
Total	\$178.9 million					

vi. Other Discretionary Reserve Funds

Discretionary Reserve Funds	Uncommitted Balance as of June 30, 2019	Capital or Operating	Purpose	Annual Estimated Contribution / Collection	By-law # / Policies	Comments
Workers Compensation	\$24.8 million	Operating	Funds for use in financing excessive Workplace Safety Insurance claims	Annual budget contribution as a % of salary	No. 254-1988	
Insurance	\$64.9 million	Operating	Funds set aside for claims where the Region self-insures	Difference between actual annual premium and budget	No. 124-1986	
Land Conservation and Protection	-	Capital	Funds dedicated to Regional land purchase for land conservation and protection	Annual budget contribution	2004-F-86	
Durham Regional Forest	\$0.1 million	Operating/ Capital	Funding to assist in the management of the Regional Forest		97-W-68	Recommend to provide \$1.0 million top-up from Foreign Exchange Reserve Fund
Durham Regional Cancer Centre / Hospital	\$0.6 million	Capital/ Operating	Funding to support the community hospital capital programs as approved by Regional Council		No. 75-2002	Establish capital needs to support community investments in health care projects. Fund being renamed through Grant Policy Report
Oak Ridges Conservation Plan	-		Funds to assist in the financing of costs related to the Oak Ridges Moraine Conservation Act, 2001		2007-F-33	

Industrial Land	\$0.5 million	Capital	Funds to contribute to the cost of developing industrial lands		No. 183-1977	Recommend fund be repealed and funds transferred to the new Servicing of Employment Lands and Key Locations Reserve Fund
Foreign Exchange	\$4.8 million	Capital	Originally, funds to mitigate future exchange fluctuations related to debt issued in USD		No. 48-1980	Recommend fund be repealed and transfer \$3.8 million to the Economic Development Reserve Fund and \$1.0 million to the Regional Forest Reserve Fund
Total	\$95.7 million					

C. Reserves

Reserves	Uncommitted Balance as of June 30, 2019	Capital or Operating	Purpose	Annual Estimated Contribution / Collection	By-law # / Policies	Comments
Regional Roads	\$46.2 million	Capital	To provide sustainable property tax funding for the property tax portion of growth-related projects	\$12.6 million budget contribution	Report 98-F-68	Investing in Canada Infrastructure Program (ICIP) – a portion of these funds are required to address the Region's share of capital projects under the ICIP. Remaining funds needed to fund growth-related share of future road projects
Working capital	\$49.1 million	Capital	To reduce the need for temporary borrowing to finance normal day to day operations	Budget contribution		Ongoing construction cashflow requirements
Property Tax Appeals	\$30.3 million	Operating	To fund property tax appeal awards resulting from reassessment and appeals	Budget Contribution		
Equipment Replacement	\$10.4 million	Capital	To fund the replacement of major equipment and fleet	- Annual depreciation - Proceeds of equipment sales	No. 97-80	Funds required to address the replacement needs related to the Works Fleet vehicles – over 350 Works vehicles
Contingencies	\$0.4 million	Operating	To offset potential claims for water and sanitary sewer billing appeals		Report No. 76-141	

Reserves	Uncommitted Balance as of June 30, 2019	Capital or Operating	Purpose	- Annual Estimated Contribution / Collection	By-law # / Policies	Comments
Sick Leave	\$130.1 million	Operating	To fund employment related contract commitments with respect to sick leave and other post-employment benefits	<ul style="list-style-type: none"> - Annual budget contribution - Savings on EI contributions - 0.5% of payroll costs 	No. 72-75	
Capital Project Commitments	\$240.8 million	Capital	To provide for costs of capital projects in the year budgeted but completed in future years		Report No. 76-141	<p>10-year capital needs for large scale projects estimated at \$906 million (net of DC and other external funding)</p> <ul style="list-style-type: none"> • Police - \$179 million • Solid Waste - \$364 million • Transit - \$114 million • Paramedic - \$7.0 million • Health / Social Services - \$20.0 million • Depots - \$20 million • BRT - \$175 million • Headquarters - \$27 million

Reserves	Uncommitted Balance as of June 30, 2019	Capital or Operating	Purpose	Annual Estimated Contribution / Collection	By-law # / Policies	Comments
Employee Benefits	\$21.2 million	Operating	To fund employment related contract commitments with respect to current extended health benefits	Budget Contributions	Report 04-A-67	Recommend additional usage to fund the post year end payment for 50% of the unused incidental sick hours for the employees and employee groups covered by the Short Term Income Protection Program
UOIT and Durham College	\$0.9 million	Operating	To fund contributions to post-secondary educational institutions		Reports 2004-F-45, 2008-F-76 & 2010-F-29	
Total	\$529.4 million					