



Municipality of Port Hope

Staff Report

porthope.ca/agendas-and-minutes

Report Title: Consideration of Rural LLRW, Urban LLRW and Hydro Reserve Funds use in 2025 Budget

Report to: Committee of the Whole

Date of meeting: October 22, 2024

Report Author:

David Baxter, Director, Finance

Department responsible:

Finance

Report Number: FS-17-24

Recommended Action:

That Council direct staff to consider the use of Hydro Reserve Funds as a funding source for the Walton Phase 3 reconstruction project.

Highlights:

- The 2025 plan is to continue to use 80% of prior year net earnings of the Urban and Rural LLRW Reserve Funds to directly reduce the urban and rural tax levy respectively.
- For the Rural LLRW Reserve, in the past 10 years \$1.96 million has been directly applied to reduce rural tax levy in accordance with Council direction. No other use of funds has occurred during the 2015-2024 period.
- For the Urban LLRW Reserve Fund, \$1.82 million has been applied to reduce the urban tax levy and \$295,000 was committed as initial funding for the Downtown Revitalization Community Improvement Plan during the same period.
- The Hydro Reserve has a 2023 year-end balance of \$5.3 million, with some remaining funds to be deposited from the sale of business park land once finalized. The Hydro funds have not been utilized in recent years.
- Given the current infrastructure funding shortfall, consideration may be given to utilizing the Hydro Reserve to fund significant infrastructure projects, such as Walton Street Phase 3 and the upcoming Cavan Street reconstruction. The water and wastewater utility rates as well as the tax levy are impacted by these major projects.

Report No.: FS-17-24

Report to: Committee of the Whole

Background:

This report provides Committee the opportunity to consider the use of the Municipality's three largest reserves as part of the 2025 Budget: Urban LLRW Reserve Funds, Rural LLRW Reserve Funds, and Hydro Reserve Funds.

As part of the agreement with the federal government for the storage of Low-Level Radioactive Waste (LLRW) materials within the long-term waste management facility in the community, the urban and rural areas each received \$10 million. The legal agreement identifies the intention that both funds be used for the exclusive benefit of the ratepayers of each geographic area of Port Hope. The rural fund included additional wording regarding the maintenance of the original fund amount, and use of up to 8% of the anticipated 10% annual earnings to reduce the lower tier municipal taxes.

These funds have been separately maintained as reserve funds, with annual decisions of Council to utilize all or a portion of the earnings of the funds. This annual decision is considered during the finalization of the proposed budget and included in the final tax levy by-law. Funds have been used directly to reduce the tax levy, either generally or directly applied to specific items, or contributed to a reserve that funded infrastructure projects.

In 2014, a legal challenge was commenced regarding the Rural LLRW Reserve Funds. Ultimately, the court upheld the Municipalities' use of the funds and treatment as a reserve. The court recognized that the Municipality intends to maintain the initial payment amount and has used the income to benefit the ratepayers by directly reducing taxes or other public uses of indirect benefit.

Following this decision, Council passed Resolution 114/2018 establishing that the prior year annual net increase in the value of the Rural LLRW Reserve Fund is to be applied as:

- 80% of the annual net increase in the value of the fund will be applied directly to reduce the annual rural area Municipal levy, and
- 20% will remain in the Rural LLRW Reserve Fund to generate incremental earnings to offset the increasing cost of living.

The stated intention was to establish a policy to ensure the best interests of rural citizens are being served and to safeguard the longevity of the fund for the benefit of rural residents.

There is no standing resolution or formalized policy regarding the use of the Urban LLRW Reserve Funds, however in recent years it is common for 80% of earnings to be used to directly reduce the tax levy for urban ratepayers (mirroring the use in the rural area). The Urban LLRW fund has also been used as initial funding for the Downtown Revitalization Community Improvement Plan (CIP).

Port Hope Hydro was the local electricity distribution utility operated by the former Town of Port Hope. The Hydro Reserve Fund was established with the proceeds from the sale of the former Port Hope Hydro utility in 2000, prior to amalgamation. The Amalgamation Order limits use of the funds to be used for the benefit of the ratepayers of what is now known as the Urban Area of the Municipality of Port Hope.

This fund has been used for many purposes, most significantly for funding the Town Park Recreation Centre, Capitol Theatre, Mary J. Benson Library, Health Care, Jack Burger Sports Complex, Business Park and other economic development. Current direction provides that the funds from the sale of Business Park lands be contributed back into this reserve.

Discussion:

There is current Council direction on the use of Rural LLRW Reserve Funds. This continued approach to the use of the funds is a consistent method aligned to the original intended use. Accordingly, 80% of the annual net increase in the value of the Rural LLRW Reserve Fund will be applied directly to reduce the annual rural area Municipal levy.

The same practice has been applied by Council in the urban area over the past 5 years. Staff support this continued practice, which provides consistency of use both within the urban fund and with that of the rural fund.

The Hydro Reserve Fund has not had any utilization in recent years. There is one land sale within the Business Park awaiting finalization for which the funds will be deposited into the Hydro Reserve Fund. Once this sale is finalized, the full complement of municipally owned Business Park Lands has been sold for development opportunities.

Given the current infrastructure funding shortfall that has been identified publicly through many presentations and reports, it is recommended that Council consider utilizing the Hydro Reserve to fund significant infrastructure projects, such as Walton Street Phase 3 and the upcoming Cavan Street reconstruction. The water and wastewater utility rates as well as the tax levy are impacted by these major projects. The Hydro Reserve Fund could be used to offset the cost to the utilities for these works, which provides a direct benefit to the urban area and is within the general intention as to how the reserve is to be utilized. Consideration can also be given to applying funds to reduce the tax levy component of the projects.

Financial Considerations:

Over the past 10 years, 80% of prior year net earnings of the Rural LLRW Reserve Fund have consistently been used to directly reduce the tax levy impacting rural area taxpayers in a combined amount of \$1.96 million. There has been no other use of the funds during this 2015-2024 period. The 2023 year-end balance in the Rural LLRW Reserve Fund is \$10.6 million.

During the same 2015-2024 period, \$1.82 million of the Urban LLRW Reserve Fund has been applied to reduce the tax levy impacting urban area taxpayers. Often, but not always, this was based on utilizing 80% of the net earnings of the fund, with some years applying lesser amounts. In addition, \$295,000 was committed as initial funding for the Downtown Revitalization CIP, with \$128,000 unspent as of the end of 2023. An additional \$100,000 was transferred to the fund from the general budget until a CIP reserve was setup. That funding will be transferred to the new CIP Reserve in 2024. The 2023 year-end balance in the Urban LLRW Reserve Fund is \$11.4 million.

The Hydro Reserve has a 2023 year-end balance of \$5.3 million, with some remaining funds to be deposited from the sale of business park land once finalized.

Communication and Public Engagement:

This report forms part of the budget process, which includes multiple communications and public engagement opportunities. There are no planned events specific to this report. Use of the LLRW Funds to reduce the tax levy is typically included in the communications regarding the budget and tax levy.

Conclusion:

The 2025 plan is to continue to use 80% of prior year net earnings of the Urban and Rural LLRW Reserve Funds to directly reduce the urban and rural tax levy respectively. Given the current infrastructure funding shortfall, it is recommended to consider utilizing the Hydro Reserve to fund significant infrastructure projects, such as Walton Street Phase 3 and the upcoming Cavan Street reconstruction. The water and wastewater utility rates as well as tax levy are impacted by these major projects. The Hydro Reserve Fund could be used to offset the cost to the utilities for these works, which provides a direct benefit to the urban area. Consideration can also be given to applying funds to reduce the tax levy component of the projects.

Attachments:

None.