

Reserve and Reserve Fund Policy

Policy Statement:

The Municipal Act, 2001, section 290 provides that a municipality's budget shall set out amounts to be paid into and out of reserves. A municipality may establish reserve funds for any purpose for which it has authority to spend money.

Purpose:

The purpose of this policy is to establish consistent principles, standards and guidelines for the maintenance, management and accounting of reserves and reserve funds. The primary purpose for reserves and reserve funds is:

- Adherence to statutory requirements;
- Promotion of financial stability and flexibility;
- Provision for major capital expenditures;
- Smooth expenditures which would otherwise cause fluctuation in the operating and capital budgets; and
- To take advantage of financial opportunities that may arise.

Definitions:

In this policy the following definitions are used:

- a) "**Deferred Revenue**" means revenue that is considered a liability on the Town's financial statements until it becomes relevant to current operations, such as prepayment received for goods or services that have not yet been provided. Some Deferred Revenue is set aside in obligatory reserve funds for a specific purpose as required by legislation, regulation, or agreement such as development charges, cash-in-lieu of parkland, and federal and provincial gas tax.
- b) "**Discretionary Reserve Fund**" means Reserve funds created at the discretion of Council whenever revenues are earmarked to finance future expenditures of a purpose designated by Council.
- c) "**Obligatory Reserve Fund**" means Reserve funds that are required by legislation or agreement to be segregated from the Town's general revenues for a special purpose or for works to be undertaken on behalf of the contributor. These funds are classified in the financial statements as Deferred Revenue.

- d) **"Reserve"** means an allocation of accumulated net revenue that makes no reference to any specific asset and does not require the physical segregation of money. Established primarily for the purpose of providing working funds. A reserve cannot have a revenue or expense of itself, like a reserve fund.
- e) **"Reserve Fund"** means a fund that is segregated and restricted to meet a specified purpose and includes both an obligatory reserve fund and a discretionary reserve fund.

Responsibilities:

Municipal Council

Municipal Council shall:

- a) In accordance with the Municipal Act 2001, Section 224 develop and evaluate policies, ensure that administrative policies, practices and procedures and controllership policies, practices and procedures are in place and maintain the financial integrity of the municipality.
- b) Approve transactions to and from reserves and reserve funds through the budget process or by specific resolution (for reserves) and by-laws (for reserve funds).

Chief Administrative Officer

The Chief Administrative Officer shall:

- a) Support the Director of Finance in ensuring the principles and mandatory requirements contained in this policy are applied consistently across all Town departments.

Director of Finance / Treasurer

The Director of Finance shall:

- a) Develop and update this policy as necessary and present changes to Council;
- b) Ensure that the principles and requirements contained in this policy are applied consistently across all departments;
- c) Perform the transfers to and from reserves and reserve funds as authorized by Council;
- d) Recommend strategies for the adequacy of reserve levels; and
- e) Report to Council the reserve balances and forecast as part of the annual budget approval process.

Department Directors

Department Directors shall:

- a) Provide the Director of Finance with the most current capital asset information to be used in the assessment of the adequacy of capital lifecycle reserves;

- b) Ensure their departments 10 year capital plan is updated each year;
- c) Inform the Director of Finance when reserve or reserve fund transfers are required; and
- d) Consult with the Director of Finance when reserve funds are required for unbudgeted transactions.

Policy:

Establishment of Reserves and Reserve Funds

Reserves will be maintained to meet one of the following purposes of the Municipality:

1. **Capital Asset Replacement** - established to smooth the spikes in capital budgets and smooth out property tax changes. This reserve will be segregated by department;
2. **Municipal Project Reserves** – Establish a reserve to fund future municipal projects that are expected and the costs are mostly known;
3. **Economic Stability Reserves** - established to buffer against significant fluctuations in the economy;
4. **Contingency Reserves** - established to accommodate contingent, unfunded or known liabilities
5. (where the amount is unknown) for current and/or future years;
6. **Working Capital Fund Reserves** - established to provide cash flow for operations to eliminate the requirement to borrow funds to meet immediate obligations. These funds can also be used to smooth spikes in operating budgets year over year; and
7. **Rate Stabilization Reserves** - These funds can also be used to smooth spikes in operating budgets year over year;

Reserves can be established through the following processes:

1. Inclusion in the annual operating or capital budget which is approved by Council;
2. Through resolution of Council; or
3. Surplus remaining at the end of the year will be moved into capital reserves unless otherwise directed by the Department head.

The budget document or resolution will clearly identify the name of the reserve being created and the purpose for the reserve. A reserve may be amended through resolution.

Reserve Funds will be maintained in the following categories:

1. **Discretionary** - subdivided into:
 - a) Operating
 - b) Capital

c) Specific Use

2. **Obligatory**

Council, on the recommendation of the Director of Finance may establish a discretionary reserve fund:

A reserve fund can be recommended only if at least one of the following applies:

- a) A mandatory obligation exists, either pursuant to legislation or contract
- b) The funds are intended for purchasing or maintaining capital assets
- c) The funds are donated for a specific purpose
- d) The funds are intended to fund a future liability

A report which recommends the establishment of a reserve must include the following:

- a) Statement of purpose
- b) Rationale for the appropriate level to be maintained or targeted in the reserve
- c) Initial contribution
- d) Contribution policy

A **Discretionary Reserve Fund** will be established through by-law. The by-law will clearly identify the name of the reserve fund, the funding method and the purpose for the reserve fund. A reserve fund can only be used for the identified purpose, unless Council amends or repeals the establishing by-law.

An **Obligatory Reserve Fund** is established either through terms of an agreement which is entered into by the Town or through legislation from a higher level of government. Obligatory Reserve Funds will be added to the summary of Reserve Funds. Council cannot create an Obligatory Reserve Fund.

In order to achieve maximum flexibility, when establishing a reserve or reserve fund, the intended use should be defined in more general terms such as "facilities" rather than "hockey arena". The Finance Department will establish tracking procedures to ensure that funds in the reserve or reserve fund that are earmarked for a specific project are easily identifiable to management and Council.

Approval of funding allocations to and from Reserves and Reserve Funds:

Approval of funding to and from the Reserves and Reserve funds will be in accordance with the Town's established Budget Policy and reports to Council as referred to above.

Closing Reserves and Reserve Funds:

If the purpose or purposes for which the reserve or reserve fund was created have been

accomplished and the reserve or reserve fund is determined to be no longer necessary, the Director of Finance, in consultation with the Department Director, shall report to Council with the recommendation on:

- a) The closure of the reserve or reserve fund
- b) The disposition of any remaining funds
- c) The necessary amendment to the Reserve by-law

A resolution of Council will be required to close a reserve.

The By-law establishing the Reserve Fund will be required to be repealed in order to close a Reserve Fund.

Allocation of Operating Surplus / Deficit:

1. Year-end General Levy budget surplus will be allocated to the department's capital reserve unless otherwise directed by the Director of the department.
2. Year-end General Levy budget deficits will be funded by a reserve fund if available. If not reserve fund amount is available the deficit will be funded through proceeding years tax levy.
3. Year-end Water and Wastewater budget surplus will be allocated to appropriate Water or Wastewater Reserve. Deficits will be funded from the Water and Wastewater Reserve, if insufficient any shortfall will be funded from the preceding years Water and Wastewater levy.

Interest Allocation:

1. Reserve funds will be invested in accordance with the Town's approved investment policy. Earnings shall be credited to the individual reserve fund account as deemed appropriate by the Director of Finance.
2. Reserves shall not be allocated interest but can be invested as approved the in the Town's investment policy as the Director of Finance deems appropriate.

Total Reserve Target:

1. The target for each reserve and reserve fund is identified in Schedule 1 to this policy
2. The Director of Finance will review the targets annually and propose changes to the target levels as required.

Temporary Reserve Fund Borrowing:

Temporary borrowing to cover a reserve short-term deficit, interim servicing requirements or internal financing is permitted, when justified, adequately supported and authorized by Council.

However the following conditions must be met in order to allow borrowing from reserve funds:

1. Borrowing must not adversely affect the intended purpose of the reserve.
2. A plan to repay the reserve within a reasonable timeframe is required and must be documented.
3. Interest, equivalent to the Town's interest on reserve fund bank accounts, will be applied to outstanding amount borrowed.
4. Where applicable, legislative requirements may apply. For example, the Development Charges Act permits inter-fund borrowing only between development charge reserve funds and prescribes a minimum interest rate (i.e. Bank of Canada prime rate as of the document approval date, updated on the first business day of every January, April, July and October).

Annual Reporting:

Reporting of Reserves and Reserve Funds will occur through the following processes:

1. A year to date continuity schedule will be included in quarterly variance reports to Council.
2. As required under development charge legislation, if and when a Development Charges By-law is enacted by Council, the Director of Finance will provide Council with a financial statement related to the Development Charge By-law and include information regarding development charge reserve funds. This statement will then be forwarded to the Minister of Municipal Affairs and Housing within 60 days after Council receipt.
3. Year-end audit and financial statements - balances of reserves, both obligatory and discretionary reserves and reserve funds will be presented with note disclosure and comparative figures as required to meet PSAB reporting standards.
4. Where required, reporting to Council or other agencies may exist for reserved residual balances related to grants or other contributed funds (e.g. Federal and Provincial Grants).

Schedule A - Obligatory Reserve Funds

Reserve Name	Capital or Operating	Purpose	Source of Funding	Basis for Target Reserve Balance	Target Balance	Basis for Target Minimum Annual Contribution	Target Minimum Annual Contribution
Development Charges	Capital	To provide funding for capital expansion related to growth	Collected from developers in accordance with the Development Charges Act, as enacted via By-law	N/A	N/A	N/A	N/A
Parkland Reserve Fund	Capital	To provide funding for park space when development occurs	Contributions under the Panning Act	N/A	N/A	N/A	N/A
Provincial Gas Tax	Both	For transit related operations in accordance with Provincial Gas Tax (Ie Road, bridges, transit, ect.)	Quarterly payments from the province	N/A	N/A	N/A	N/A

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Schedule B – Reserve Funds

Reserve Name	Capital or Operating	Source of Funding	Basis for target Reserve Balance	Target Balance	Basis for Target Minimum Annual Contribution	Target Minimum Annual Contribution
LCPW - Dredging Fund	Operating	Budget Contributions	N/A	N/A	N/A	N/A
LCPW - Infrastructure	Capital	Budget Contributions	Based 10 year capital plan	Based 10 year capital plan	Based 10 year capital plan	Based 10 year capital plan
LCPW – Clean Flo	Operating	Budget Contributions	N/A	N/A	N/A	N/A
LCPW - Equipment	Capital	Budget Contributions	Based 10 year capital plan	Based 10 year capital plan	Based 10 year capital plan	Based 10 year capital plan
LCPW – Shore walls	Operating	Budget Contributions	N/A	N/A	N/A	N/A
Ramara Trails	Capital and Operating	Budget Contributions	N/A	N/A	N/A	N/A
Library Expansion Reserve	Capital	Budget Contributions	N/A	N/A	N/A	N/A

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Schedule C - Summary of Reserves

Name	Reserve Type	Purpose	Funding Source	Annual contribution goal	Reserve Balance Goal
Department Capital Reserves(Example)	Capital	To fund large capital purchases to avoid spikes in the yearly tax rate	Budget contributions, year-end surplus, grants	See 10 year capital forecast	See 10 year capital forecast
Working Capital Reserves	Operating	To fund operating expenses on a yearly or emergency basis. This fund can be used to avoid tax rate spikes cause by increases in operating costs	Budget contributions year-end surplus	2 to 5% annual	N/A
Library Capital	Operating	To fund Library operating costs to avoid large increases in grant request from the Municipality	Grants, donations, year-end surplus	2 to 5% annual	N/A
Water Capital	Capital	To fund large capital purchases to avoid large increase in water and sewer rates	Budget contributions, year-end surplus, grants	See 10 year capital forecast	See 10 year capital forecast
Mosquito Control	Operating	Surplus from Mosquito control operations to avoid any large increases in operating cost			

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Election	Operating	Budget contributions set aside to help cover the cost of the election every four(4) years	Budget contributions	25% of estimated election costs	Estimated budget cost
Municipal Projects	Operating	Budget contributions set aside to help cover the cost of specific municipal projects in a year where costs are higher than average	Budget contributions	N/A	N/A
Rate Stabilization	Operating	Budget contributions set aside to use when tax rate increases are higher than an average year. This reserve can be a general reserve or specific to a cost groups(ie OPP)	Budget contributions	N/A	N/A
Contingencies	Operating	Budget contributions to cover emergency or contingent liabilities that may arise	Budget contributions	N/A	N/A