

|   |   |
|---|---|
| <b>CORPORATION<br/>of the City of<br/>Clarence-<br/>Rockland</b>    | <b>Policy number:</b> FIN24-XX                  |
|   | <b>Subject:</b> Reserve and Reserve Fund Policy |
|   | <b>Department:</b> Finance                      |
| <b>Date:</b> October 2024<br><b>Prepared by:</b> Frédéric Desnoyers | <b>Resolution number:</b>                       |

## Policy Statement:

A Policy governing the management and administration of reserves and reserve funds.

## 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;
- Smooth tax rate impacts;
- Provision for major capital expenditures;
- Smooth expenditures which would otherwise cause fluctuation in the operating budget; and
- To take advantage of financial opportunities that may arise.

## Definitions:

**Reserve** - Monies set aside by approval of Council and not restricted by legislation. It has no reference to any specific asset and does not require the physical segregation of money or assets as in the case of a reserve fund. Reserves do not receive an annual interest allocation.

**Reserve Fund** - Monies set aside for a specific purpose as required by provincial legislation, a municipal by-law, or agreement. Reserve Funds receive an annual interest allocation based on the average annual balance. The City of Clarence-Rockland has both Obligatory and Discretionary Reserve Funds.

**Obligatory Reserve Fund** - Monies set aside and legally restricted by provincial legislation, a municipal by-law, or agreement. The funds are raised for a specific purpose and cannot be used for any other purpose.

**Discretionary Reserve Fund** - Monies set aside at the discretion of Council to finance a future expenditure for which it has the authority to spend money, and physically set aside a certain

portion of any year's revenues so that the funds are available as required.

**Deferred Revenue** - Revenue that is considered a liability on the municipality's financial statements, until such time it becomes relevant to current operations. It is set aside as an obligatory reserve fund for a specific purpose required by legislation, regulation, or agreement.

**Revolving Reserves** - Reserves used to fund normal course operating requirements or cash flow deficiencies that do not require Council approval.

## **Responsibilities:**

### **Treasurer**

The Treasurer 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) Provide recommendations for establishment, closure or consolidation of Reserve and Reserve funds;
- d) Perform the transfers to and from reserves and reserve funds as authorized by Council;
- e) Recommend strategies for the adequacy of reserve levels;
- f) Prudently invest Reserve and Reserve Funds per the Investment Policy, and allocate interest appropriately; and
- g) Report to Council the reserve balances and forecast as part of the annual budget approval process.

### **Department Directors**

Department Directors shall:

- a) Determines need for reserves and reserve funds for operating and capital budgets;
- b) Provide the Treasurer with the most current capital asset information to be used in the assessment of the adequacy of capital lifecycle reserves;
- c) Inform the Treasurer when reserve or reserve fund transfers are required;
- d) Consult with the Treasurer to determine when Reserves or Reserve Funds should be created, consolidated or closed; and
- e) Consult with the Treasurer when reserve funds are required for unbudgeted transactions.

## **Establishment and Modification of Reserve and Reserve Funds**

Prior to establishing a new reserve or reserve fund, a financial plan will be prepared which identifies need, target funding level (if applicable), contribution sources and projected disbursements (when practicable) to meet planned future obligations.

Reserves can be established through the following processes:

1. Inclusion in the annual operating or capital budget which is approved by Council; or
2. Through resolution of Council.

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.

## **Contributions to/withdrawals from Reserves and Reserve Funds**

All contributions to and/or withdrawals from reserves and reserve funds shall be approved by Council, normally as part of the annual budget approval process or specifically by resolution with the following exceptions:

- Direct contribution to reserve and reserve funds such as development charge contributions or settlement in account of prior year events;
- Transfers that are the direct result of the allocation surplus/deficit described below in the Allocation of Operating Surplus/Deficit section;
- Transfers of funds between reserve cost centers for reserve restructure which in the opinion of the Treasurer have not changed the purpose for which the funds were intended;
- Use of “revolving” reserves for the purpose approved by Council; and
- Transfers that are a direct result of Council approved by-laws or resolutions.

All contributions to and/or withdrawals from reserve and reserve funds will be clearly identified and segregated within the Corporation’s accounting system and accounted for by either an entry or to/from an operating cost center or a capital project.

## **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 Treasurer, 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

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**

Reserves and Reserve Funds shall receive priority consideration for the distribution of surplus funds. Unless extraordinary conditions exist or specified targets are exceeded, any annual operating surplus/deficit from an audited year-end will be transferred to/from reserve and reserve funds.

### **Operating surpluses**

Treasurer is authorized to, subject to approval process in paragraph Reporting Requirements below:

- a) Transfer 30% of any operating surplus to the Tax Rate Stabilization Reserve until the upper limit of the fund as defined in the Reserve and Reserve Fund Policy is met;
- b) Transfer 30% of any operating surplus to the road reserve funds;
- c) Transfer 40% of any operating surplus to reduce the long-term debt issuance funded from the Tax Levy budget;

- d) Year-end Water, Wastewater and Waste Management budget surplus will be allocated to appropriate Water, Wastewater or Waste Management Reserve.

**Operating deficits**

In the event of an operating deficit, the Treasurer is authorized to, subject to approval process in paragraph Reporting Requirements below:

- a) Transfer the necessary funds from the Tax Rate Stabilization Reserve unless these funds have been included in the subsequent years' budget funding estimates;
- b) Review the status of discretionary reserves and, in collaboration with Director's Team, transfer any available funds from these reserves to the operating deficit;
- c) If a deficit still remains, the amount shall be carried forward to the subsequent years' budget in accordance with the provisions of the Municipal Act and staff shall be directed to review their budgets to find savings equal to the unfunded deficit amount.
- d) Year-end Water, Wastewater and Waste Management budget deficits will be funded from the appropriate reserve fund.

**Reporting Requirements**

In addition to any information requested by Council, or that the Treasurer considers appropriate, Council shall receive a report detailing the recommended distribution of the operating surplus or deficit funding by June 30 of each year for their approval.

This policy, including the targets and contributions recommended in schedule A-C, will be reviewed annually by the Treasurer after the year-end surplus or deficit figures have been verified. The Treasurer will propose changes as required by recommendations to the Council.

**Interest Allocation**

- Reserve funds shall be invested for a term that will not exceed its expected date of need;
- Reserve funds will be invested in accordance with the Council approved investment policy;
- Interest shall be allocated to reserve funds on an annual basis based on the actual balance of the reserve fund.

**Schedule A - Obligatory Reserve Funds**

| <b>Reserve Name</b>                       | <b>Capital or Operating</b> | <b>Purpose</b>   | <b>Source of funding</b>                      | <b>Target Minimum Annual Contribution</b> |
|---|-----------------------------|--|---|---|
| Building Inspection Services <sup>1</sup> | Operating                   | To fund operational deficit cause by revenue shortfall from building permits inspection services | Year-end Building permit operations surpluses | N/A                                       |
| Development                               | Capital                     | To provide funding   | Collected from                                | N/A                                       |

|  |                       |  |   |     |
|--|-----------------------|--|---|-----|
| Charges<br>(presented as deferred revenue)<br>By-Law 2019-85 |                       | for capital expansion related to growth  | developers in accordance with the <i>Development Charges Act</i> and <i>Municipal Act</i> , as enacted via By-law   |     |
| Recreational Land<br>(presented as deferred revenue)         | Capital               | To provide funding for parks or other public recreational purposes, including the erection or repair of buildings and the acquisition of machinery for parks or other public recreational purposes | Payments received in lieu of the conveyance of parklands otherwise required in respect of the development or redevelopment of lands as set out in Section 42 of the <i>Planning Act</i> . | N/A |
| Federal Gas tax<br>(presented as deferred revenue)           | Capital and operating | To fund infrastructure project in accordance with the <i>Municipal Funding Agreement</i>   | Federal Gas Tax Revenues as set out in the Municipal Funding Agreement.   | N/A |

#### Schedule B - Discretionary Reserve Funds

| Reserve Name                               | Capital or Operating | Purpose   | Source of funding  | Target  |
|--|----------------------|---|--|---|
| Parking<br>(presented as deferred revenue) | Capital              | To provide funding for future parking space development         | Payments received in lieu when commercial Businesses would need more parking space on Laurier street | N/A   |
| Roads<br>By-law 2011-104                   | Capital              | To fund the maintenance and reconstruction of roads in the City | Tax Levy   | <i>Annual contribution:</i><br>to be defined by the asset management plan<br><br><i>Increase in annual contribution:</i><br>1% of prior |

|  |  |  |  |  |
|--|--|--|--|--|
|  |  |  |  | <p>year tax levy until the annual contribution target is reached</p> <p>+ Increase of the Ontario CPI calculated every end of July</p> |
|--|--|--|--|--|

### Schedule C - Reserves

| Reserve Name         | Capital or Operating  | Purpose  | Source of funding                     | Target   |
|----------------------|-----------------------|--|---------------------------------------|--|
| Building             | Capital               | To provide funding for building maintenance/repairs/replacements                     | Tax Levy                              | <p><i>Annual contribution:</i> to be defined by the asset management plan</p> <p><i>Increase in annual contribution:</i> Defined per the asset management plan</p> <p>+ Increase by the Ontario CPI calculated every end of July</p> |
| Complex library      | Capital and Operating | To provide funding for capital repairs / replacement for the Library                 | User fees and year-end surplus        | N/A  |
| Daycares             | Operating             | To fund Daycares operations in case of revenue shortfalls or of one-time expenditure | Year-end Daycare operations surpluses | N/A  |
| Economic Development | Capital               | To provide funding for economic development initiatives                              | Tax Levy                              | N/A  |
| Elections            | Operating             | To fund future municipal election costs  | Tax Levy                              | N/A  |

|                           |         |  |             |  |
|---------------------------|---------|--|-------------|--|
| Equipment                 | Capital | To provide funding for maintenance/repairs/replacements of equipment | Tax Levy    | <p><i>Annual contribution:</i> to be defined by the asset management plan</p> <p><i>Increase in annual contribution:</i> Defined per the asset management plan</p> <p>+ Increase by the Ontario CPI calculated every end of July</p> |
| Fire Stations - Paramedic | Capital | To provide funding for major building repairs / replacement          | UCPR leases | N/A  |

|                                    |                     |  |                          |  |
|------------------------------------|---------------------|--|--------------------------|--|
| Fleet                              | Capital             | To provide funding for vehicle repairs and new vehicle purchases | Tax Levy                 | <p><i>Annual contribution:</i> to be defined by the asset management plan</p> <p><i>Increase in annual contribution:</i> Defined per the asset management plan</p> <p>+ Increase by the Ontario CPI calculated every end of July</p> |
| General working capital            | Operating & Capital | To fund future one-time expenditure                              | Tax Levy                 | <p><i>Increase in annual contribution:</i> Increase by the Ontario CPI calculated every end of July</p>  |
| Golf tournament - Mayor            | Operating           | To fund Mayor's initiatives                                      | Golf tournament revenues | N/A  |
| Ottawa River Festival <sup>1</sup> | Operating           | To fund future Festival deficits                                 | Festival surpluses       | N/A  |

|                                       |                       |  |  |  |
|---------------------------------------|-----------------------|--|--|--|
| Planning                              | Operating             | To fund Planning operations in case of revenue shortfalls or of one-time expenditure                           | Revenues from user fees                          | N/A  |
| Regional Training Centre <sup>1</sup> | Operating and Capital | To set aside surpluses and to cover future deficits and one-time expenditures for the Regional Training Centre | Regional training Centre surplus                 | N/A  |
| Sewers - Operating                    | Operating             | To fund wastewater service operations  | Year-end surpluses from user fees budget.        | N/A  |
| Sewers - Capital                      | Capital               | To provide a source of funding for wastewater infrastructure   | Revenues from user fees                          | N/A  |
| Skateboard Committee                  | Capital               | To fund future recreational structures   | Sponsorship money raised by a resident committee | N/A  |
| Snow Removal <sup>1</sup>             | Operating             | To cover future deficits caused by heavy snow falls/snow storms  | Tax Levy   | <i>Reserve balance: 35% of 5 year average winter control costs</i> |
| Sport Complex                         | Capital               | To provide funding for capital repairs / replacement at the Complex  | Tax Levy   | N/A  |

|                        |           |  |  |  |
|------------------------|-----------|--|--|--|
| Tax Rate Stabilization | Operating | To fund unforeseen events as tax revenue shortfalls or one-time expenditures | Appropriations made from time to time from the operating budget and operation year-end surpluses | <i>Reserve balance: 5% to 10% of prior year municipal tax levy</i> |
| Waste Management       | Operating | To fund waste management service operations                                  | Year-end surpluses from user fees budget.  | N/A  |
| Waterworks - Operating | Operating | To fund water service operations   | Year-end surpluses from user fees budget.  | N/A  |
| Waterworks - Capital   | Capital   | To provide a source of funding for water infrastructure                      | Revenues from user fees  | N/A  |

|              |           |  |          |     |
|--------------|-----------|--|----------|-----|
| WSIB Reserve | Operating | To self-fund Workers' Compensation claims as a former Schedule 2 employer (ended December 31, 2010). | Tax Levy | N/A |
|--------------|-----------|--|----------|-----|

<sup>1</sup>Revolving reserves