

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 budget; 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) Inform the Director of Finance when reserve or reserve fund transfers are required; and
- c) 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. **Asset Replacement** - established to smooth the spikes in capital budgets and smooth out property tax changes;
2. **Project Reserves** - established to provide cost effective self borrowing mechanisms to reduce risks associated with interest rate fluctuations;
3. **Economic Stability Reserves** - established to buffer against significant fluctuations in the economy;



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4. **Contingency Reserves** - established to accommodate contingent, unfunded or known liabilities (where the amount is unknown) for current and/or future years;
5. **Working Fund Reserves** - established to provide cash flow for operations to eliminate the requirement to borrow funds to meet immediate obligations; and
6. **Self Insurance Reserves** - established to provide self insurance provisions.

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.

Reserve Funds will be maintained in the following categories:

1. **Discretionary** - subdivided into:
 - a) Operating
 - b) Capital
 - c) Specific Use
2. **Obligatory** - subdivided into:
 - a) Operating
 - b) Capital

Council, on the recommendation of the Director of Finance may establish a discretionary reserve fund and shall establish an obligatory 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 through either 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.

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 in accordance with the Operating Surplus / Deficit Policy.
2. Year-end General Levy budget deficits will be funded in accordance with the Operating Surplus / Deficit Policy.
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 appropriate reserve fund.

Interest Allocation

1. Reserve funds will be invested in accordance with the Town's approved investment policy. Earnings shall be credited to each separate reserve bank account that invested the funds.
2. Where multiple reserve funds are included in one bank account, interest shall be allocated to reserve funds on a monthly basis based on the actual balance of the reserve fund.
3. Reserves shall not be invested and are not allocated interest.

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 (ie. 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 (eg. 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
Lot Levy	Capital	To provide funding for capital expansion	Collected in accordance with the Lot Levy Act	N/A	N/A	N/A	N/A
Property Reserve Fund	Capital	To provide funding for parking lot development, sourced from developers	Contributions under the Planning Act	N/A	N/A	N/A	N/A
Parkland Reserve Fund	Capital	To provide funding for park space development	Contributions under the Planning Act	N/A	N/A	N/A	N/A
Provincial Gas Tax	Both	For transit operations in accordance with Provincial Gas Tax	Quarterly contributions from the Province, established	N/A	N/A	N/A	N/A



Agreement	annually
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Schedule B - Discretionary Reserve Funds

Reserve Name	Capital or Operating	Purpose	Source of Funding	Establishing By-Law	Basis for Target Reserve Balance	Target Balance	Basis for Target Minimum Annual Contribution	Target Minimum Annual Contribution
Bobby Orr Golf Classic Reserve Fund	Both	To provide support for Bobby Orr Hall of Fame at Mr.Orr's discretion and Council approval	Funded through Samsung donation		N/A	N/A	N/A	N/A
EMS Equipment and Capital Reserve Fund	Capital	To fund infrastructure, vehicle and equipment replacement	Funded through budget contributions determined using amortization expense.		Sustainability of current operational levels.	Amortization	Varies	
EMS Municipal Surplus Reserve Fund	Operating	To fund operations of Land Ambulance Service	Annual surplus from operations, funding from municipalities		N/A	N/A	N/A	
EMS Severance Reserve Fund	Operating	To fund severance costs for	Initially provided by the Province, no current annual		Funding of Employment Standards Act	N/A	N/A	



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		paramedics	contribution		minimum for paramedic severance			
Fire Training Facility Reserve Fund	Capital	To provide funding for an initiative by WPS fire departments to establish a joint training facility	Funding providing by area municipalities through tax levies.	N/A	N/A	N/A		
Capital Asset Legacy Reserve Fund	Capital	To provide a source of funding for expenditures related to the purchase of capital assets, excluding water and wastewater systems.	Funding through tax levy contributions, sale of property, and as otherwise directed by Council.	Required capital funding as provided by Asset Management Plan, 5-year vehicle and equipment forecast, and building assessments	The total capital outlays for the upcoming 5-year period.	1/5th of the cost of capital projects to be completed in upcoming 5 years.		
Municipal Parking Reserve Fund	Capital	To fund capital replacement of municipal parking lots and parking equipment	Surplus of revenue generated from parking meters over operating expenses		N/A	Surplus of parking revenues	N/A	
Pool Trust Reserve Fund	Capital	To provide funding for a aquatic centre	Contributions from municipalities /	N/A	N/A	N/A	N/A	



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donors



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Sewer Development Reserve Fund	Capital	To provide a source of funding for wastewater infrastructure	Capital surcharge and surplus from the wastewater rate payers	Asset Management Plan	As indicated in Asset Management Plan and Water/Wastewater Study	N/A	N/A
Smelter Wharf Reserve Fund	Capital	To provide funding for capital repairs / replacement	Contractual agreement with SIFTO	N/A	N/A	N/A	N/A
Water Development Reserve Fund	Capital	To provide a source of funding for water infrastructure	Capital surcharge and surplus from the water rate payers	Asset Management Plan	As indicated in Asset Management Plan and Water/Wastewater Study	N/A	N/A
West Parry Sound District Association Reserve Fund	Operating	To provide funding for the WPS District Association	Contributions from WPS municipalities	N/A	N/A	N/A	N/A



Schedule C - Summary of Reserves

Reserve Name	Reserve Type	Purpose	Funding Source	Target Range
Cemetery and Columbaria Reserve	Asset Replacement		Tax levy	N/A
Emergency Capital Asset Replacement Reserve	Asset Replacement	To provide funding for unforeseen capital asset replacement	Tax levy, government funding, sale of town property	\$100,000 to \$200,000
Health Unit Capital Reserve	Asset Replacement	To fund future District Health Unit Capital costs	Tax levy	As requested by North Bay Parry Sound District Health Unit
Industrial Development Area Park Reserve	Asset Replacement	To fund future development at the Parry Sound Area Industrial Development Park	Tax levy	N/A
Parks Reserve	Asset Replacement	To fund future capital replacement and program expansion for local parks	Tax levy	N/A
Stockey Centre New Capital Reserve	Asset Replacement	To fund future capital asset purchases for the Charles W. Stockey Centre	Ticket surcharge	N/A
Stockey Centre Bobby Orr Hall of Fame Reserve	Asset Replacement	To fund future operational and capital expenditures for the Bobby Orr Hall of Fame	50% of unspent budget in Stockey Centre operations	N/A
Waste Management and Landfill Decommissioning Reserve	Asset Replacement	To fund waste management and landfill rehabilitation	Tax Levy	As per consultant reports



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costs



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Water Stabilization Reserve	Asset Replacement	To fund water service operations and future capital asset replacement	Annual surplus from water user rates	N/A
Wastewater Stabilization Reserve	Asset Replacement	To fund wastewater service operations and future capital asset replacement	Annual surplus from wastewater user rates	N/A
Economic Development Reserve	Project	To provide funding for economic development initiatives	Tax levy	N/A
Emergency Services Reserve	Asset Replacement	To provide funding for service en	Tax levy	
LACAC Directory Reserve	Project	To provide funding for the Local Architectural Conservation Advisory Committee	Tax levy	N/A
Municipal Election Reserve	Project	To fund future municipal election costs	Tax levy	25% per year of anticipated election costs
Tax Rate Stabilization Reserve	Economic Stability	To fund tax revenue shortfalls, one time expenditures, as well as other contingencies such as MPAC appeals	General Surplus	5% to 10% of prior year municipal tax levy
PS Power Promissory Note Reserve	Economic Stability			
Winter Control Reserve	Contingency	To mitigate impact of heavy snow falls on	Tax levy / unspent winter control funds	25% of 5 year average winter control costs



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		winter control expenditures		
General Working Capital Reserve	Working Fund	To provide working capital for the Town	General surplus	15% to 25% of prior year tax levy
WSIB Reserve	Self Insurance	To offset costs of WSIB claims and insurance costs	Tax levy	N/A