



POLICY

SECTION: FINANCE**NO: FI-RE-01****REFERENCE: RESERVES & RESERVE FUNDS****Date:
September 2023****Review Date:
August 2025**

TITLE: RESERVES & RESERVE FUNDS POLICY

1.0 POLICY STATEMENT

- 1.1 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.
- 1.2 This policy establishes the objective for reserves and reserve funds, standard of care, as well as delineating the responsibilities for their management and administration.

2.0 PURPOSE

- 2.1 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 are:

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

3.0 DEFINITIONS

- 3.1 Discretionary Reserve Funds: Funds are segregated from the general revenues of the Municipality, based on Council direction, to finance future expenditures or to provide for a specific contingent liability so that the funds are available as required.
- 3.2 Obligatory Reserve Funds: As per statute or legislation requirements, funds received for special purposes are segregated from the general revenues of the Municipality. Obligatory reserve funds are created solely for the purpose prescribed for them.
- 3.3 Reserve: An appropriation from net revenue at the discretion of Council, after provision for all known expenditures. 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. Although a reserve cannot have a revenue or an expense of itself, a reserve may provide earnings derived from the investment of a reserve to form part of that reserve.
- 3.4 Reserve Fund: Funds that have been set aside either by a by-law of Council, by a requirement of provincial or federal legislation, or by agreement. As a result, reserve funds are either “discretionary” being those set up by Council or “statutory” being those set up by a requirement of provincial or federal statute. The Council may set up a Reserve Fund for any purpose for which they have authority to spend money.

4.0 PRINCIPLES

- 4.1 Healthy reserve levels are important in achieving community goals including financial health and stability;
- 4.2 Reserve goals need to be consistent with and supportive of realistic longer term financial plans;
- 4.3 Reserve Fund management needs to conform to the statutory/legal requirements, generally accepted accounting principles (GAAP) and public-sector accounting board (PSAB) recommendations.
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5.0 RESPONSIBILITIES

5.1 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 bispecific resolution (for reserves) and by-laws (for reserve funds).

5.2 The Chief Administrative Officer shall:

- a) Ensure the principles and mandatory requirements contained in this policy are applied consistently across all City departments.

5.3 The Treasurer shall:

- a) Develop and update this policy as necessary and present changes to Council for review and approval;
 - b) Ensure that the principles and requirements contained in this policy are applied consistently across all departments;
 - c) Determine need for reserves and reserve funds for operating and capital operations;
 - d) Present to the CAO and Council for approval any recommended strategies and targets for various reserves and reserve funds where appropriate;
 - e) Perform the transfers to and from reserves and reserve funds as authorized by Council;
 - f) Arrange for the preparation, presentation of required reports and/or bylaws and recommendations for the creation or termination of any new or obsolete reserve or reserve funds for the review and approval of the CAO and Council;
 - g) Prepare required report to Council on any loan or advance to any agencies or boards where the source for such loans or advances is from a reserve or reserve fund; and
 - h) Ensure the appropriate allowances, contributions and/or appropriations are accounted for in the Corporation's Annual Budget related to the financial requirements of the reserves and reserve funds.
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6.0 ESTABLISHMENT OF RESERVES AND RESERVE FUNDS

- 6.1 Reserves can be established through the following process:
- i) Inclusion in the annual operating or capital budget; or
 - ii) Through Council resolution.
- 6.2 Reserve Funds will be established when at least one of the following applies:
- i) A mandatory obligation exists, either through legislation or contract;
 - ii) The funds are intended for purchasing or maintaining capital assets;
 - iii) The funds are donated for a specific purpose; or
 - iv) The funds are intended to fund a future liability.

7.0 CLOSING RESERVES AND RESERVE FUNDS

- 7.1 If the purpose for which the reserve or reserve fund was created has been achieved and the reserve or reserve fund is no longer required, the Treasurer, in consultation with the CAO, will report to Council a recommendation to:
- i) Close the reserve or reserve fund;
 - ii) Dispose of any remaining funds;
 - iii) Amend, if necessary, the Reserve and Reserve Fund Policy and By-law.

8.0 ALLOCATION OF OPERATING SURPLUS/DEFICIT

- 8.1 Year-end operating budget surpluses or deficits will be allocated in accordance with the Operating Surplus and Deficit Policy

9.0 INTEREST ALLOCATION

- 9.1 Reserve Funds will be invested in accordance with the City's approved investment policy. Earning (interest) will be credited to each separate reserve fund and corresponding bank account.
- 9.2 Where multiple Reserve Funds are included in one bank account or investment, interest shall be allocated to the reserve funds based on its proportionate share.

- 9.3 Reserves are not allocated interest.
- 9.4 If required, Council may by by-law provide that the money earned from a Reserve Fund be spent, pledged or applied to a purpose other than that for which it was established.

10.0 RESERVE BORROWING

- 10.1 Borrowing from reserves and reserve funds is permitted to temporarily finance capital expenditures or operating cash flow deficiencies to avoid external temporary borrowing costs.
- 10.2 The following conditions must be met to allow borrowing from reserves/reserve funds:
- a) Council approval/authorization.
 - b) Borrowing must not adversely affect the intended purpose of the reserve.
 - c) A plan to repay the reserve within a reasonable timeframe is required, must be documented and be a component of future operating budgets.

11.0 EXTERNAL LOANS

- 11.1 External loans may be made at the discretion of Council under Section 107 of the *Municipal Act, S.O. 2001, c. 25* to any person, group or body for any purpose considered to be in the best interests of the Municipality. However, prior to recommending such a loan to Council, staff will consider the following:
- a) Purpose of loan/benefit to be derived must be a public agency or group;
 - b) Term of loan not to exceed five years;
 - c) Appropriate security is provided to protect the interests of the Corporation;
 - d) The financial profile of the borrower;
 - e) If adequate reserves are available for the term of the loan.

- 11.2 All loans will be provided from non-restricted reserves such as the General Capital Reserve, as direct loan investment of statutory reserve funds is prohibited under provincial legislation. External loans must bear market rates of return commensurate with the term of the loan, with interest income being credited to the appropriate reserve source.

12.0 RESERVE FUNDING TARGETS

- 12.1 A target funding level will be established for:
- a) Total Discretionary Reserve Funds (excluding Waterworks and Sanitary/Wastewater)
 - Target = 50% of Property Tax Revenue
 - b) Waterworks Reserve Fund
 - Target = 100% of Waterworks Own Source Revenue
 - c) Sanitary/Wastewater Reserve Fund
 - Target = 50% of Sanitary/Wastewater Own Source Revenue
 - d) General Operating Reserve
 - Target = 1/6th (2 months) Payroll Expenditures
- 12.2 Targets will be reviewed annually by staff to ensure their adequacy and alignment with the City's long-term financial plans and forecasts.
- 12.3 As warranted, targets will be calculated for individual Reserve or Reserve Funds on a case-by-case basis, and the Treasurer will make recommendations to Council. Consideration will be given to the following:
- Purpose of the Reserve or Reserve Fund
 - Predictability of revenues and volatility of expenditures
 - Certainty of future liability
 - Economic factors (inflation, interest rates, cyclical pressures)
 - Industry/government/accounting standards and best-practices

13.0 REPORTING REQUIREMENTS

- 13.1 The Treasurer will prepare the following reports:
- a) A year-to-date continuity schedule, including a comparison to targets, will be included in the year-end financial report to Council.
 - b) Year-end audit and financial statements – balance of reserves, both obligatory and discretionary reserve funds will be presented with note disclosure and comparative figures as required to meet PSAB reporting standards.

- c) Where required, reporting to Council or other agencies may exist for reserved residual balances related to grants or other contributed funds (ex. Federal or Provincial Grants).
- d) Contributions to and budget appropriations from reserves and reserve funds must be approved by Council as part of the annual Budget or specifically by resolution.

History			
Approval Date:	Nov. 26, 2018	Approved by:	Council
Amendment Date:	Dec. 10, 2018	Approved by:	Council
Amendment Date:	Oct. 26, 2020	Approved by:	Council
Amendment Date:	May. 25, 2021	Approved by:	Council
Amendment Date:	Apr. 16, 2022	Approved by:	Treasurer
Amendment Date:	Feb. 13, 2023	Approved by:	Council
Amendment Date:	Sept. 11, 2023	Approved by:	By-law 2023-54

**This policy is subject to any specific provisions of the Municipal Act,
or other relevant legislation or Union agreement.**

Schedule A – Obligatory Reserve Funds

Reserve Name	Capital or Operating	Purpose	Source of Funding	Upper Limit
Provincial Gas Tax Reserve Fund	Both	For Transit, in accordance with the Dedicated Gas Tax Funds for Public Transportation Program	Provincial Gas Tax Funding	N/A
Canada Community-Building Reserve Fund	Both, with Operating limited to "Capacity Building" expenditures	To provide a source of funding for eligible expenditures under the Municipal Funding Agreement	Canada Community-Building Fund allocations	N/A

Schedule B – Discretionary Reserve Funds

Reserve Name	Capital or Operating	Purpose	Source of Funding	Upper Limit
Legacy Reserve Fund	Both	To provide investment earnings that provide a revenue source for the Municipality	Proceeds from the sale of Dryden Hydro	N/A
Land Sales Reserve Fund	Capital	To provide a source of funding for expenditures related to City buildings and land development	Proceeds from land and property sales	N/A
Tax Supported Capital Reserve Fund	Capital	To provide a source of funding for expenditures related to the purchase of capital assets	Annual Surplus from Operations	N/A
Sanitary/Wastewater Reserve Fund	Both	To provide a source of funding for sewer/wastewater infrastructure, as well as to fund Sanitary Sewer operating deficits	Funded through Operational Surplus	N/A
Waterworks Reserve Fund	Both	To provide a source of funding for waterworks infrastructure, as well as to fund Waterworks operating deficits	Funded through Operational Surplus	N/A
Dryden Fire Services (DFS) Apparatus/Equipment Reserve Fund	Capital	To provide a source of funding for expenditures related to the purchase of DFS	Funded through revenue collected through the	N/A

		capital assets	agreement with Fire Marque Inc.	
Waterfront Development Reserve Fund	Both	To provide a source of funding for expenditures related to Waterfront Development	Funded through revenue collected through the MAT	N/A
Community Well Being Reserve Fund	Both	To support the community's continuing efforts to build community sustainability and wellness, support capacity-building and the development of transferrable skills	NWMO	N/A
Near-Term Investment Reserve Fund	Both	Funding to carry out Near-Term Investment Activities	NWMO	N/A
Solid Waste Reserve Fund	Capital	To provide a source of funding for solid waste/landfill infrastructure	Budget Allocation from Landfill Revenues	N/A

Schedule C – Summary of Reserves

Reserve Name	Capital or Operating	Purpose	Source of Funding	Upper Limit
Election Reserve	Operating	To fund future municipal election costs	Funded through budget contributions	\$50,000
Museum Reserve	Both	To fund non-routine expenditures	Donations	N/A
Aaron Park Reserve	Both	To fund Aaron Park operating deficits, as well as non-routine expenditures	Aaron Park Annual Surplus from Operations	\$50,000
Emergency Capital Reserve	Capital	To provide funding for unforeseen capital asset replacement	Annual Surplus from Operations	\$500,000
General Operating Reserve	Operating	To fund operating deficits, as well as other contingencies such as MPAC appeals	Annual Surplus from Operations	\$2,000,000