



To: COUNCIL
Meeting Date: 10/22/2024
Subject: Reserve and Reserve Fund By-Law
Submitted By: Sheryl Ayres, CPA, CGA, Chief Financial Officer
Prepared By: Mirna Raponi, CPA, CA, Manager of Accounting and Financial Reporting
Report No.: 24-042-CRS
File No.: C11
Wards Affected: All Wards

RECOMMENDATION(S):

THAT Report 24-042-CRS Reserve and Reserve Fund By-Law be received;
AND THAT the Reserve and Reserve Fund By-Law 2-17, as amended by By-Law 23-024, be amended by replacing Schedule A as per Appendix A to report 24-042-CRS;
AND FURTHER THAT the following reserve and reserve fund transfers as identified in this report be approved.

EXECUTIVE SUMMARY:

Purpose

The purpose of this report is to amend the existing Reserve and Reserve Fund By-Law, and to obtain approval for the internal transfer of funds.

Key Findings

Changes to the Reserve and Reserve Fund By-Law include:

- Creation of reserves/reserve funds previously approved by Council;
- Recommendations to create new reserve/reserve funds; and
- Revision of various existing reserve/reserve funds intended use and funding target based on management review.

Financial Implications

The proposed amendments to the by-law for reserve and reserve funds are essential to address changes in the financial environment and incorporate Council directives and staff recommendations. These updates will refine the framework for managing reserves, ensuring more accurate financial planning and robust oversight to effectively meet anticipated fiscal requirements and challenges.

The proposed reserve and reserve fund transfers are recommended to ensure allocation of funding to the appropriate account as either collected or intended, or for meeting anticipated funding requirements.

Transfer From (Reserve or Reserve Fund)	Transfer To (Reserve or Reserve Fund)	Transfer Value (\$)
Capital Works Reserve Fund	Infrastructure Renewal Fund	\$7,100,898
Infrastructure Renewal Fund	Stormwater Capital Reserve Fund	\$2,000,000
Tax Rate Stabilization Reserve	Waived D.C. Reserve	\$4,967,231
Wastewater Rate Stabilization Reserve	Waived D.C. Reserve	\$764,687
Water Rate Stabilization Reserve	Waived D.C. Reserve	\$133,495
Infrastructure Renewal Fund	Fleet Equipment Reserve Fund	\$1,000,000

STRATEGIC ALIGNMENT:

Strategic Action

Objective(s): Not Applicable

Strategic Action: Not Applicable

OR

Core Service

Program: Finance

Core Service: Financial Planning

Reserve and reserve funds are financial tools used to ensure the responsible and sustainable management of financial resources.

BACKGROUND:

Reserve and Reserve Fund By-Law

The existing Reserve and Reserve Fund By-Law 2-17, which was originally enacted in January 2017 and subsequently amended most recently by 23-024-CRS in March 2023, requires periodic updates to remain aligned with the evolving financial environment. This report recommends specific amendments to the By-law, informed by management review and/or Council direction and an analysis of best practices, to ensure its continued relevance and effectiveness.

ANALYSIS:

Reserve and Reserve Fund By-Law Amendment

Staff have conducted a review of the existing Reserve and Reserve Fund By-Law. Based on this review, staff recommend updating Schedule A of the By-law, as detailed in Appendix A of this report. This updated Schedule A provides a comprehensive overview of each reserve and reserve fund, including their purpose, funding source, intended use, and funding target balance.

A summary of the key changes is provided below.

Waived Development Charges

Summary of Change: Creation of new reserve.

In the Council meeting held on May 14, 2024 (24-019 CRS 2023 Year End Operating Update), it was reported that waived development charges for tax, water, and wastewater categories were lower than initially budgeted for the year 2023. As a result of these lower-than-expected charges, the savings were allocated to the corresponding tax, water, and wastewater stabilization reserve funds in the absence of a designated reserve. This allocation was made to prepare for anticipated future financial impacts related to waived development charges.

To improve the accuracy and transparency of tracking the contributions toward waived development charges, staff recommend establishing a dedicated reserve. This new reserve will allow for a clearer and more precise management of funds related to waived development charges, distinct from other stabilization reserves.

Furthermore, staff recommend transferring the following allocations from the existing rate stabilization reserves, per the breakdown below, to the newly established Waived Development Charges Reserve:

- \$4,967,231 from the Tax Rate Stabilization Reserve;
- \$764,687 Wastewater Rate Stabilization Reserve; and
- \$133,495 Water Rate Stabilization Reserve.

This transfer aligns with the amount allocated in prior years and will ensure the funds are properly categorized and utilized for their intended purpose.

Description	Recommended Change
Name	Waived Development Charges
Purpose	To defray net capital costs of growth-related services for which development charges have been waived as per Council approved policy, thereby ensuring the City can continue to finance essential infrastructure improvements.
Funding Source (Revenue)	Municipal budget allocations designated to compensate for the revenue lost from waived development charges.
Intended Use (Expenditure)	To fund growth related costs as outlined in the Development Charge Study.
Funding Target	Funding targets are based on Development Charge Study requirements.

Rate Stabilization Reserve

Summary of Change: Change in funding target.

Staff recommend revising the wording related to rate stabilization reserves and reserve funds to ensure consistency across all related reserves. This revision aims to standardize the language used, leading to a clearer and more coherent evaluation of funding targets. By aligning the terminology, staff will facilitate a comparison and assessment process, enhancing transparency and ensuring that funding targets are uniformly understood and applied.

Description	Previous	Recommended Change
Rate Stabilization Funding Target	5-15% of previous years tax revenues. Once upper end of the target has been reached, the operating surplus will be transferred to a tax	n/a remains the same.

Description	Previous	Recommended Change
	funded reserves/reserve funds of greatest need.	
Library Rate Stabilization Funding Target	5-15% of the Library's previous year's operating budget revenues.	5-15% of the Library's portion of the previous years tax revenues.
Wastewater Rate Stabilization Funding Target	Target balance between 5% to 15% of the rate revenue requirements as determined each year for the wastewater operating budget.	5-15% of previous years wastewater rate revenues.
Water Rate Stabilization Funding Target	Target balance between 5% to 15% of the rate revenue requirements as determined each year for the water operating budget.	5-15% of previous years water rate revenues.

Capital Works Debt Retirement Reserve

Summary of change: Change in intended use (expenditure).

The Capital Debt Retirement reserve is designated primarily to fund debt payments, ensuring that the operating impact remains consistent over the budget period. Staff recommend expanding the intended use of this fund to include financing for capital projects. By utilizing reserves for these projects, the City will be able to support necessary infrastructure and improvements without the need to issue additional debt. This approach allows for effective management of capital investments while maintaining fiscal prudence and minimizing financial strain on the budget.

Description	Previous	Recommended Change
Intended Use (Expenditure)	To fund debt payments to ensure the operating impact remains consistent over the budget period.	To fund debt payments to ensure the operating impact remains consistent over the budget period, or to fund capital projects without issuing additional debt.

Self Insurance Reserve

Summary of Change: Change in funding target.

Staff recommend clarifying the funding target to focus specifically on costs that are unpredictable, such as insurance claim expenses. This adjustment aims to ensure that the self insurance reserve is utilized effectively and is not overfunded by including costs that can be anticipated and planned for, such as annual insurance premiums. By incorporating predictable costs into the annual operating budget, the reserve can be used for managing unexpected expenses, thereby maintaining a more balanced and responsive financial strategy.

Description	Previous	Recommended Change
Funding Target	Target minimum 2x average of the past 3 years annual costs. Target maximum not to exceed 3x average of the past 3 years annual costs.	Target minimum 2x average of the past 3 years annual insurance claims costs. Target maximum not to exceed 3x average of the past 3 years annual costs.

Stormwater Rate Stabilization Reserve Fund

Summary of Change: Creation of new reserve.

In the Council meeting held on July 16, 2024, Council approved the transition of stormwater funding from being supported by the tax base to a dedicated rate structure, as detailed in report 24-028-CRS. This shift aims to better align stormwater funding with its specific revenue sources and expenditures.

Staff recommend the creation of a Stormwater Rate Stabilization reserve fund. This new reserve fund will be structured similarly to the existing water rate stabilization and wastewater rate stabilization reserve funds. By adopting a comparable structure, the Stormwater Rate Stabilization reserve fund will ensure consistent management practices and provide stability in funding, allowing for more effective oversight and financial planning for stormwater services.

Description	Recommended Change
Name	Stormwater Rate Stabilization
Purpose	To provide a contingency for unforeseen events and stabilize stormwater rate fluctuations caused by one time expenditures,

Description	Recommended Change
	previous years' operating deficits or revenue shortfalls.
Funding Source (Revenue)	Funds from an annual stormwater operating budget contribution that is reviewed annually to ensure compliance; and, 50% of the year end surplus from the stormwater operating fund until the funding target is reached. Investment income.
Intended Use (Expenditure)	To offset extraordinary one-time pressures or phase-in significant impacts affecting the stormwater rate and not to be considered a long-term sustainable funding source for general operations. To cover stormwater deficits.
Funding Target	5-15% of previous years stormwater rate revenues.

Stormwater Capital Reserve Fund

Summary of Change: Creation of new reserve fund.

In the Council meeting held on July 16, 2024, Council approved the transition of stormwater funding from being supported by the tax base to a dedicated rate structure, as detailed in report 24-028-CRS. This transition aims to provide a more targeted and sustainable approach to funding stormwater management.

Staff recommend the establishment of a Stormwater Capital reserve fund. This new fund will be structured similarly to the existing Water Capital reserve fund and Wastewater Capital reserve fund. By adopting this consistent structure, the Stormwater Capital reserve fund will facilitate uniform management practices, ensuring that capital resources for stormwater projects are allocated and utilized in a manner comparable to other key utility services. This approach will enhance financial planning, oversight, and the long-term sustainability of stormwater infrastructure.

Staff recommend a transfer of \$2,000,000 from the Infrastructure Renewal Reserve to provide an acceptable opening balance to help offset initial stormwater capital requirements.

Description	Recommended Change
Name	Stormwater Capital

Description	Recommended Change
Purpose	To provide long term sustainable funding for the replacement and major rehabilitation of the stormwater infrastructure.
Funding Source (Revenue)	Annual contribution from the stormwater operating budget and 50% of the year end surplus from the wastewater operating fund until such time as the cap within the stormwater rate stabilization reserve is reached. When the cap within the stormwater rate stabilization reserve fund is reached, then 100% of the year end surplus from the stormwater operating fund will be transferred to the stormwater capital reserve fund. Investment income.
Intended Use (Expenditure)	To fund the replacement and major rehabilitation of the wastewater infrastructure for capital projects as identified in the stormwater capital budget and to provide funding for emergency or unforeseen needs.
Funding Target	When combined with forecasted new revenue and anticipated debt utilization, the balance in this reserve should provide for the needs outlined in the City's corporate asset management plan for the full lifecycle of the assets.

Capital Reserve Funds

Summary of Change: Change in funding target.

Staff recommend removing the stipulation that “annual contributions must equal or exceed the annual amortization from the prior year.” Rather, the funding target should be realigned to assess the reserve fund balance in the context of the Corporate Asset Management Plan. This adjustment ensures that funding decisions are more closely linked to the strategic needs and priorities outlined in the Asset Management Plan, rather than being tied to a fixed amortization benchmark. This approach will provide greater flexibility and alignment with long-term asset management objectives, allowing for a more strategic allocation of resources to support the City's infrastructure and asset needs.

This change will impact the following reserve and reserve funds:

- Facility Capital – Library
- Capital Works
- Capital Works Committed

- Wastewater Capital
- Water Capital
- Stormwater Capital
- Infrastructure Renewal Fund
- Cemetery Improvements
- Fleet Equipment
- Facility Capital

Description	Previous	Recommended Change
Funding Target	When combined with forecasted new revenue and anticipated debt utilization, the balance in this reserve should provide for the needs outlined in the City’s corporate asset management plan for the full lifecycle of the assets. As a minimum, the City will ensure that annual contributions is equal or exceeds the annual amortization from the prior year.	When combined with forecasted new revenue and anticipated debt utilization, the balance in this reserve should provide for the needs outlined in the City’s corporate asset management plan for the full lifecycle of the assets.

Infrastructure Renewal Fund

Summary of change: Creation of new reserve.

In response to the direction given during the Budget and Audit Committee Meeting held on February 13, 2024, as outlined in motion 24-018, Council has directed the Chief Financial Officer to establish a new Infrastructure Renewal Reserve Fund (IRF), and to dedicate a minimum of 80 per cent of the capital levy reserve contribution to the IRF effective 2024. This fund is intended to support the long-term renewal and maintenance of the City's infrastructure, ensuring that resources are set aside systematically to address future capital needs. The establishment of this reserve fund will contribute to strategic financial planning and help maintain the integrity and functionality of critical infrastructure assets.

Staff recommend a transfer of \$7,100,898 from the Capital Reserve Fund to the Infrastructure Renewal Fund.

Description	Recommended Change
Name	Infrastructure Renewal Fund
Purpose	To allocate resources for the future rehabilitation and replacement of the City's aging infrastructure, ensuring the long-term sustainability and functionality of essential public assets.
Funding Source (Revenue)	Year-end city operating surplus and annual contribution from the operating budget. Investment income.
Intended Use (Expenditure)	To fund the replacement or rehabilitation of City infrastructure as identified in the City's asset management plan.
Funding Target	When combined with forecasted new revenue and anticipated debt utilization, the balance in this reserve should provide for the needs outlined in the City's corporate asset management plan for the full lifecycle of the assets.

Library Rate Stabilization Reserve

Summary of change: Changes in purpose, intended use, and funding target.

Staff recommend revising the terminology for the library rate stabilization reserve to align with the City's rate stabilization reserve. This change will standardize language, improve clarity, and ensure consistent evaluation of purpose, intended use, and funding targets, enhancing transparency and comparison.

Description	Previous	Recommended Change
Purpose	To stabilize revenue streams and provide resources to respond to extraordinary events. This reserve will be used to moderate fluctuations in the Library tax levy during preparation of the annual operating budget and to protect the Library against unforeseen expenditures or	To provide a contingency for unforeseen events, stabilize library tax rate fluctuations caused by one-time expenditures, previous years' operating deficits or revenue shortfalls.

Description	Previous	Recommended Change
	unanticipated deficits that may occur in the fiscal year.	
Intended Use (Expenditure)	Contribution to operating fund for: 1. Funding of year-end operating deficits. 2. Funding of extraordinary events and unanticipated expenditures.	To offset extraordinary one-time pressures or phase-in significant impacts affecting the library tax levy and not to be considered a long-term sustainable funding source for general operations. To fund operating deficits.
Funding Target	5-15% of the Library's previous year's operating budget revenues	5-15% of the Library's portion of the previous year's tax revenues.

Fleet Equipment Reserve Fund

Staff recommend a transfer of \$1,000,000 from the Infrastructure Renewal Fund to the Fleet Equipment Reserve Fund to address a funding shortfall resulting from forecasted expenditures.

EXISTING POLICY / BY-LAW(S):

The Reserve and Reserve Fund Policy FIN 007 establishes a comprehensive financial framework for the management and administration of reserves and reserve funds. This policy supports the City of Cambridge's commitment to responsible financial stewardship, ensuring transparency and accountability. It outlines guiding principles, primary objectives, key management responsibilities, and standards of care for the City's reserves and reserve funds.

The existing Reserve and Reserve Fund By-Law 2-17 was initially enacted in January 2017 and has been amended most recently by 23-024-CRS in March 2023. As the financial landscape evolves, periodic amendments to this By-law are necessary to maintain its relevance and effectiveness. This report recommends updates to the By-law, reflecting previous Council directives, recent management reviews, and an analysis of best practices. These amendments aim to ensure that the By-law continues to support the City's financial objectives and adapt to changing circumstances.

FINANCIAL IMPACT:

This report recommends amendments to the Reserve and Reserve Fund By-Law to enhance transparency and accountability in the City's financial reporting of reserve and reserve fund balances.

Recommended reserve and reserve fund transfers to ensure allocation of funding to the appropriate account as either collected or intended or for meeting anticipated funding requirements.

Transfer From (Reserve or Reserve Fund)	Transfer To (Reserve or Reserve Fund)	Transfer Value (\$)
Capital Reserve Fund	Infrastructure Renewal Fund	\$7,100,898
Infrastructure Renewal Fund	Stormwater Capital Reserve Fund	\$2,000,000
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Wastewater Rate Stabilization Reserve	Waived D.C. Reserve	\$764,687
Water Rate Stabilization Reserve	Waived D.C. Reserve	\$133,495
Infrastructure Renewal Fund	Fleet Equipment Reserve Fund	\$1,000,000

PUBLIC VALUE:

This report supports the financial sustainability of the City by ensuring appropriate oversight and governance towards the City's reserve and reserve funds.

ADVISORY COMMITTEE INPUT:

Not applicable.

PUBLIC INPUT:

Posted publicly as part of the report process.

INTERNAL / EXTERNAL CONSULTATION:

Amendment to the Reserve and Reserve Fund By-Law are based on management review as well as staff research of best practices amongst other municipalities. Staff from divisions associated with specific reserve funds were consulted through the review of the By-law.

CONCLUSION:

Periodic updates to the Reserve and Reserve Fund By-Law are essential to ensure alignment with the changing financial landscape and to maintain effective financial management. This report recommends specific amendments to the By-law, reflecting previous Council directives and staff analysis to improve transparency and strengthen the City's financial management, and recommends reserve and reserve fund internal transfers to ensure allocation of funding to the appropriate account as either collected or intended.

REPORT IMPACTS:

Agreement: **Yes**

By-law: **Yes**

Budget Amendment: **No**

Policy: **No**

APPROVALS:

This report has gone through the appropriate workflow and has been reviewed and or approved by the following as required:

Director

Deputy City Manager

Chief Financial Officer

City Solicitor

City Manager

ATTACHMENTS:

1. 24-042-CRS Appendix A – Proposed Amending Reserve and Reserve Fund By-Law