

POLICY TITLE	Year-End Operating Surplus Allocation Policy
CATEGORY	Financial
POLICY NUMBER	FIN 006
DEPARTMENT	Corporate Services
POLICY AUTHOR	Financial Services
POLICY TYPE	Administrative Policy
APPROVED BY	Council
EFFECTIVE DATE	01/01/2025
REVIEW DATE	As required

POLICY STATEMENT

This policy establishes a priority framework for the allocation of any year-end operating surplus that may arise from the Tax-Supported or Water Utility Budgets in a manner that is consistent with Council's view of long-term financial sustainability and in line with best practices in financial management. This policy supports the City of Cambridge's Public Value Statement by focusing on the responsible management of financial resources, ensuring transparency and accountability.

PURPOSE

The purpose of the policy is to set guidelines for the allocation of any year-end operating surplus for the Tax-Supported Budget, including the Cambridge Public Library (Idea Exchange), and the Water Utility Budget.

DEFINITIONS

Debenture (Debt): A debt instrument promising to pay back borrowed money by a specified date, normally with periodic payments of principal and interest. A debenture is typically issued against the general ability of the borrower to repay, as opposed to being secured by specific assets. As per the Municipal Act, 2001, for the City of Cambridge, debentures are issued by the Region of Waterloo.

Reserve: An allocation of accumulated net revenue that is established by Council for a particular purpose. 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.

Reserve Fund: An allocation of accumulated net revenue segregated and restricted to meet a specific purpose. Obligatory reserve funds are required under provincial statute, while discretionary reserve funds are created by Council for a specified future use.

Reserve and Reserve Fund By-Law: A by-law governing the establishment and maintenance of the City's Reserves and Reserve Fund. This by-law outlines the purpose, funding source, intended use and funding target for each reserve and reserve fund.

Surplus: The excess of actual revenue over operating expenditures incurred during a budget period. Year-end surpluses generally arise from two circumstances - higher than budgeted revenues, including one-time only revenues and/or lower than budgeted expenditures.

Tax-Supported Budget: A budget that is partially or wholly reliant on subsidization from property taxes to support its operations. The Tax-Supported Budget includes the Cambridge Public Library (Idea Exchange).

Water Utility Budget: A budget to fund services exclusively related to the daily costs of running the water and wastewater utilities and stormwater management through rates charged to users of the system.

AUTHORITY

There are no related authorities.

SCOPE

The Year-End Operating Surplus Allocation Policy applies to any surplus funds accumulated at year-end in the Tax-Supported or Water Utility Budgets.

POLICY

The allocation of any year-end operating surplus for Tax-Supported and/or Water Utility Budgets will be consistent with Council directions and objectives.

Any year-end operating surplus for the Tax-Supported and/or Water Utility Budgets represent one-time funding that cannot be relied on to recur on an on-going basis. Therefore, any year-end operating surplus should only be allocated towards one-time, non-recurring expenditures (i.e. capital project funding, reduce future debt requirements, replenishment of reserves and reserve funds or allocations to reserves and reserve funds to achieve targeted levels).

Any year-end operating surplus for the Tax-Supported or Water Utility Budgets will only be allocated within the operations and reserves and reserve funds of each respective Budget.

Operating Surplus Allocation Guidelines

The primary objective when allocating surplus funds is to transfer to operating reserves to offset extraordinary one-time pressures or phase-in significant impacts. This general guideline may be superseded by more immediate financial needs identified by the Chief Financial Officer, but should follow these general criteria:

- a) Any surplus related to an identifiable operating reserve (e.g. Heritage Conservation, Archives, Future Employee Benefits, WSIB, Self-Insurance, Election, Tree Canopy Management, Fleet, Winter Maintenance Reserves, etc.) may be transferred to the respective reserve not to exceed the amount defined as the funding target in the City's Reserve and Reserve Fund By-Law. For example, if there is an overall surplus in the Tax-Supported Budget and a surplus in the winter maintenance services budget, the surplus funds within winter maintenance may be transferred to the Winter Maintenance Reserve.
- b) Any surplus funds related to the accounts of the Cambridge Public Library (Idea Exchange) may be transferred to the Library Reserve or Reserve Funds (i.e. Library Rate Stabilization, Facility Capital – Library, Library Furniture and Equipment), as recommended by the CEO or delegate of the Cambridge Public Library, upon written request to the City's Chief Financial Officer.
- c) A minimum of 50% of any remaining surplus funds be directed to the Rate Stabilization Reserve for the applicable budget, not to exceed the amount defined as the funding target in the City's Reserve and Reserve Fund By-Law.
- d) Any remaining surplus be directed towards the reduction of future debt requirements and/or other reserves/reserve funds identified by the Chief Financial Officer as underfunded. Surplus directed to a capital reserve fund may be immediately allocated to fund capital work where debt had previously been approved as a funding source. This will reduce future debt servicing costs and/or create capacity within the City's debt policy limits to redirect debenture to other priorities.

POLICY COMMUNICATION

This policy will be made available to staff and posted on the City of Cambridge intranet site Policy page.

RELATED PROCEDURES

There are no related procedures.

RELATED DOCUMENTS/LEGISLATION

Municipal Act, 2001.