

**To:** SPECIAL COUNCIL  
**Meeting Date:** 1/31/2023  
**Subject:** Reserve and Reserve Fund Policy and By-Law Update  
**Submitted By:** Sheryl Ayres, Chief Financial Officer  
**Prepared By:** Mirna Raponi, Supervisor of Accounting and Financial Reporting  
**Report No.:** 23-071-CRS  
**File No.:** C1101  
**Wards Affected:** All Wards

**RECOMMENDATION(S):**

THAT report 23-071-CRS Reserve and Reserve Fund Policy and By-Law Update be received;

AND THAT the Reserve and Reserve Fund Policy, included as Appendix A, be approved;

AND THAT the Reserve and Reserve Fund By-Law 2-17, as amended by by-law 19-144, be amended by replacing Schedule A as per Appendix B to report 23-071-CRS;

AND FURTHER THAT the reserve and reserve fund transfers, outlined in this report, be approved.

**EXECUTIVE SUMMARY:**

**Purpose**

The purpose of this report is to establish a Reserve and Reserve Fund Policy and amend the existing Reserve and Reserve Fund By-Law.

**Key Findings**

Staff undertook a review of all City reserve and reserve funds and have developed a new Reserve and Reserve Fund Policy. The proposed Reserve and Reserve Fund Policy will replace any existing reserve related policies, and provide one comprehensive policy that improves clarity to the purpose of the reserves, mitigates corporate risk by ensuring appropriate targets are identified and monitored, improves fiscal internal controls surrounding access and reporting, strengthens the City's financial position, and contributes to the development of a long-term financial strategy.

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

- Closure of two reserves/reserve funds previously approved by council;
- Closure of two Library reserve funds and creation of two new Library reserves/reserve funds; and
- Revision of various existing reserve or reserve funds funding source, intended use, funding target, and classification between reserve and reserve fund based on management review and analysis of best practice.
- Minor text and formatting revisions made throughout the document.

### **Financial Implications**

The proposed Reserve and Reserve Fund Policy and amended by-Law will enhance the City's financial flexibility, functionality and transparency and contribute to improved financial stability and long-term financial planning.

### **STRATEGIC ALIGNMENT:**

- Strategic Action; or
- Core Service

**Objective(s):** Not Applicable

**Strategic Action:** Not Applicable

**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 Policy**

The proposed Reserve and Reserve Fund Policy will replace all existing reserve related policies, and provide one overarching policy that improves clarity to the purpose of the reserves, mitigates Corporate risk by ensuring appropriate target balances are identified and monitored, improves fiscal internal controls surrounding access and reporting, strengthens the City's financial position, and contributes to the development of a long-term financial strategy.

## **Reserve and Reserve Fund By-Law**

The current Reserve and Reserve Fund By-Law 2-17 was enacted in January 2017 and amended by by-law 19-144 in October 2019. Periodically, amendments are required to this by-law to reflect the changing financial landscape. This report recommends amendments to the by-law based on management review and analysis on best practice.

### **ANALYSIS:**

#### **Reserve and Reserve Fund Policy**

The Reserve and Reserve Fund Policy has been enhanced and improved so that it is now a comprehensive policy that will replace all existing reserve/reserve fund related policies. The proposed policy has been fortified with enhanced language for the establishment and modification of reserve and reserve funds, investment of funds, contributions to/drawdowns from reserve and reserve funds, borrowing of reserve and reserve funds, termination of reserve and reserve funds, roles and responsibilities of stakeholders, and reporting requirements.

This policy shall be presented to Council for review and update, if applicable, with each term of Council, or as deemed necessary by Council or the City Treasurer.

The proposed policy can be found in Appendix A.

#### **Reserve and Reserve Fund By-Law Amendment**

In conjunction with a review of the City's Reserve and Reserve Fund Policy, staff have also reviewed the existing Reserve and Reserve Fund By-Law. Staff recommend an updated Schedule A to that by-law, as identified in Appendix B to this report. This Schedule A to the by-law details the purpose, funding source, defined use, target balance and transaction authority for each reserve and reserve fund.

A summary of the notable changes are listed below.

#### **Discretionary and Obligatory Reserve Funds Funding Sources:**

Discretionary and obligatory reserve funds balances are invested in accordance with the City's approved Investment Policy, earning investment income.

Therefore, for each discretionary and obligatory reserve fund, the funding source has been revised to include "investment income".

### Contaminated Sites Grant Program Reserve:

Summary of change: Closure.

Per 22-006-CRS 2021 Year-End Operating Update on April 19, 2022, Council approved that the Contaminated Sites Grant Program Reserve be closed out with its balance being transferred to the Core Areas Transformation Fund.

### Building Revitalization Program Reserve:

Summary of change: Closure.

As per report 21-151(CRE) Core Areas Community Improvement Plan on June 29, 2021, Council approved the transfer of the remaining Business Revitalization Program (BRP) funding accounts to the Core Areas Transformation Fund, and that the annual payment to the BRP operating account be redirected to the Core Areas Transformation Fund reserve.

### Library Book Processing and Library Book Purchase Reserve Funds:

Summary of change: Closure.

Finance staff consulted with staff from Idea Exchange and together recommend that the Library Book Processing and the Library Book Purchase reserve funds be eliminated with \$150,000 of the balance transferred to the newly created Library Furniture and Equipment reserve fund, and the remaining balance transferred to the newly created Library Rate Stabilization reserve.

### Library Rate Stabilization Reserve:

Summary of change: Creation of new reserve.

Staff consulted with staff from Idea Exchange and together recommend that a new reserve, named the Library Rate Stabilization Reserve, be created. Similar to the City's Rate Stabilization Reserve, this new 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 unanticipated deficits that may occur in the fiscal year. Balances from the Library Book Processing and Library Book Purchase reserve funds will be transferred into the Library Furniture and Equipment reserve fund of \$150,000, and the remaining balance into this newly created reserve:

Description	
Name	Library Rate Stabilization
Purpose	To stabilize revenue streams and provide resources to respond to extraordinary events. This reserve will be used to moderate

Description	
	fluctuations in the Library tax levy during preparation of the annual operating budget and to protect the Library against unforeseen expenditures or unanticipated deficits that may occur in the fiscal year.
<b>Funding Source (Revenue)</b>	Contribution from the Library operating budget. Operating fund surplus from Library.
<b>Intended Use (Expenditure)</b>	Contribution to operating fund for: 1. Funding of year-end operating deficits. 2. Funding of extraordinary events and unanticipated expenditures.
<b>Funding Target</b>	5-15% of the Library's previous year's operating budget revenues.

Hydro Dividend Reserve:

Summary of change: Change in reserve name, funding source, and intended use.

Description	Previous	Recommended Change
<b>Name</b>	Hydro Dividend Stabilization	Hydro Dividend
<b>Funding Source (Revenue)</b>	Contributions from the Operating Budget and/or dividend proceeds from Energy Plus.	Contributions from the operating budget.  Dividend proceeds from GrandBridge Energy Inc.
<b>Intended Use (Expenditure)</b>	Contributions to Operating Budget.	Contributions to the Operating Budget to fund existing commitments for debenture principal and interest payments. It is intended that, as debenture payment obligations are fully met, this source of revenue will shift to funding capital projects and creating greater long-term financial

Description	Previous	Recommended Change
		sustainability. Contributions to capital projects including rehabilitation and replacement of existing assets in accordance with the City's asset management plan.

Election Reserve:

Summary of change: Change in funding target.

Description	Previous	Recommended Change
<b>Funding Target</b>	Forecasted direct election expenditures.	Forecasted direct election expenditures. The projected cost of each election is to be accumulated over a four-year period.

Winter Maintenance Reserve

Summary of change: change in funding target.

Description	Previous	Recommended Change
<b>Funding Source (Revenue)</b>	Maximum of 75% of the current year budget. Any funds in excess of the ceiling will be allocated to the rate stabilization reserve.	Up to 50% of the five-year historical average of winter control expenses. Any funds in excess of the ceiling will be allocated to the rate stabilization reserve.

Self Insurance Reserve:

Summary of change: Change in funding source and funding target.

Description	Previous	Recommended Change
<b>Funding Source (Revenue)</b>	Contribution from the Operating Budget and/or any unspent funds from the Insurance Operating Budget as determined	Contribution from the operating budget. Operating fund surplus.

Description	Previous	Recommended Change
	through a year-end review.	
<b>Funding Target</b>	Fund is not to exceed \$5 million.	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.

Tree Canopy Management Reserve:

Summary of change: Change in name, purpose, funding source, and intended use.

Description	Previous	Recommended Change
<b>Name</b>	Replacement Tree Planting Reserve	Tree Canopy Management
<b>Purpose</b>	To hold funds for the purpose of planting trees in locations within the City other than the location where a tree has been removed.	To hold funds for the purpose of planting trees on public and private property and to fund activities to grow tree canopy.
<b>Funding Source</b>	Funds derived from the permit process as per the Private Tree Preservation By-Law.	Funds derived from the permit process as per the private tree preservation By-Law and fees from planning & development applications process.
<b>Intended Use</b>	Funds will be spent on replacing trees in locations within the City other than the location where a tree has been removed.	Funds will be spent on planting trees at locations on public and private property, promoting tree preservation programs, managing tree health and tree related disaster recovery.

Affordable Housing Reserve:

Summary of change: Change in funding source and intended use as a result of changes to Section 37 of the Planning Act in 2020.

Description	Previous	Recommended Change
<b>Funding Source</b>	Funds to be derived from bonusing agreements entered into and registered on property title under Section 37 of the Planning Act negotiated on a site-by-site basis through bonusing agreements as part of the development approvals process. Funds may also be derived from conditions of plans of subdivisions/site plans and from donations.	Funds to be derived from developer contributions, plans of subdivisions/site plans, and from donations.  Contribution from the operating budget.  Operating fund surplus.
<b>Intended Use</b>	Funding would supplement the funding available through the Affordable Housing Community Improvement Plan. Funding may also be directed to the acquisition of land and construction costs directly related to the creation of affordable rental units. Funding would not be used for any costs associated with the operation, maintenance or repairs of existing or planned future affordable rental units. Funds are not intended to be used to finance any studies or consultant fees.	To provide funding towards the City's Affordable Housing Community Improvement Plan and any Affordable Housing related policies. Funding may also be directed to the acquisition of land and construction costs directly related to the creation of affordable rental units. Funding would not be used for any costs associated with the operation, maintenance or repairs of existing or planned future affordable rental units. Funds are not intended to be used to finance any studies or consultant fees.

Municipal Accommodation Tax Reserve:

Summary of change: Change in funding target.

Description	Previous	Recommended Change
<b>Funding Target</b>	N/A	Remain in a positive funded position.  Minimum target balance equals previous years contribution received from local hoteliers through the municipal accommodation tax program.

Future Employee Benefits Reserve Fund and Workplace Safety & Insurance Reserve Fund:

Summary of change: Change in funding target.

Description	Previous	Recommended Change
<b>Funding Target</b>	Per actuarial review.	Based on the most current actuarial obligation.

Various Facility and Capital Related Reserves:

Summary of change: Change in funding target.

Name	Previous: Funding Target	Recommended Change: Funding Target
<b>Facility Capital - Library</b>	Ceiling is based on life cycling of the asset components.	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 are equal to or exceeds the annual amortization from the prior year.
<b>Capital Works</b>	Fully sustainable funding of City owned Capital Assets (not including water and wastewater infrastructure) based upon life cycle and condition analysis.	
<b>Capital Works Committed</b>	N/A	
<b>Wastewater Capital</b>	Based on capital forecast requirements as identified in the wastewater long-range financial	

Name	Previous: Funding Target	Recommended Change: Funding Target
	plan required as per O. Reg. 453/07.	
<b>Water Capital</b>	Based on capital forecast requirements as identified in the wastewater long-range financial plan required as per O. Reg. 453/07.	
<b>Cemetery Improvements</b>	N/A	
<b>Fleet Equipment</b>	To fund the replacement of fleet equipment. Equipment excludes office equipment, furnishings or building equipment such as boilers, air conditioners, etc. To fund Fleet Operating Budget costs in excess of budget as determined through a year-end review.	
<b>Facility Capital</b>	Ceiling is based on life cycling of the asset components.	

**Library Furniture and Equipment Reserve Fund:**

Summary of change: Creation of reserve fund.

Finance staff consulted with staff from Idea Exchange and together recommend that a new reserve fund, named Library Equipment Reserve Fund, be created to provide long term sustainable funding for replacement of furniture and equipment at library facilities. Balances from the Library Book Processing and Library Book Purchase reserve funds will be transferred into the Library Furniture and Equipment reserve fund of \$150,000, and the remaining balance into the Library Rate Stabilization Reserve.

Description	Previous
<b>Name</b>	Library Furniture and Equipment
<b>Purpose</b>	To provide long term sustainable funding for replacement

Description	Previous
	of furniture and equipment at Library facilities.
<b>Funding Source (Revenue)</b>	Contribution from the Library operating budget. Operating fund surplus from Library. Investment income.
<b>Intended Use (Expenditure)</b>	Funds to be used for the replacement of public-facing and staff furniture and equipment, including shelving.
<b>Funding Target</b>	Remain in a positive funded position.  Minimum target balance equals previous years contribution to operating fund.

#### Canada Community Building Reserve Fund

Summary of change: Change in name.

As of June 29, 2021, the Gas Tax Fund has been renamed the Canada Community-Building Fund. This name change better reflects the program's evolution over time and will not alter or modify the objectives or requirements of the program. Therefore, staff recommend changing the name of the associated reserve fund accordingly.

Description	Previous	Recommended Change
<b>Name</b>	Gas Tax Reserve Fund	Canada Community-Building Fund
<b>Purpose</b>	To provide funding for investments in Environmentally Sustainable Municipal Infrastructure Projects and Capacity Building Projects as per the Municipal Funding Agreement for the transfer of Federal Gas Tax revenue.	To provide funding for investments in environmentally sustainable municipal infrastructure projects and capacity building projects as per the Municipal funding agreement for the transfer of Canada community-building revenue.
<b>Funding Source (Revenue)</b>	Semi-annual allocation of funds from the AMO on behalf of the Federal	Semi-annual allocation of funds from the AMO on behalf of the Federal

Description	Previous	Recommended Change
	Government per the Agreement for the Transfer of Federal Gas Tax Revenues.	Government per the Agreement for the Transfer of Canada Community Building Revenues.  Investment income.
<b>Intended Use (Expenditure)</b>	Funds will be spent according to the standing legislation regarding the use of Gas Tax Funding.	Funds will be spent according to the standing legislation regarding the use of Canada community-building funding.
<b>Funding Target</b>	Funding Agreement requires that all excess funds are to be placed in the Gas Tax Reserve Fund to be allocated to future Capital Gas Tax Projects.	Funding agreement requires that all excess funds are to be placed in the Canada community-building fund to be allocated to future capital Canada community-building projects.

#### Parkland Cash in Lieu Reserve Fund

Summary of change: Change in funding target.

Description	Previous	Recommended Change
<b>Funding Target</b>	N/A	The funding level should be sufficient to purchase and develop new parkland opportunities and to provide funding for the upgrade of parks/facilities in areas undergoing intensification as required.

#### Building Permit Stabilization

Summary of change: Change in funding source and funding target.

Description	Previous	Recommended Change
<b>Funding Source</b>	From Building Permit Fees collected in excess of the	Operating surplus from

Description	Previous	Recommended Change
	annual Operating Budget.	building services division Investment income.
<b>Funding Target</b>	Targeted ceiling of 150% of operating expenditures	Two years-worth of gross operating costs required to administer the Building Code Act.

**EXISTING POLICY / BY-LAW(S):**

The existing reserve and reserve fund policies COR-240 are simple in nature, making reference to the Reserve and Reserve Fund By-Law, that Council is to review the by-law once per each term of Council, and that Council may change the ceiling or targeted balance through this review.

The proposed Reserve and Reserve Fund Policy follows a review of best practices at comparable municipalities. The proposed policy will provide one comprehensive policy that improves clarity to the purpose of the reserves, mitigates Corporate risk by ensuring appropriate targets are identified and monitored, and improves fiscal internal controls surrounding access and reporting.

The current Reserve and Reserve Fund By-Law 2-17 was enacted in January 2017 and amended by by-law 19-144 in October 2019. Periodically, amendments are required to this by-law to reflect the changing financial landscape. This report recommends amendments to the by-law based on previous Council direction, management review and analysis of best practices.

**FINANCIAL IMPACT:**

This report recommends amendments to the Reserve and Reserve Fund Policy and By-Law that ensure transparency and accountability in the financial reporting of the City’s reserve and reserve fund balances and strengthens the City’s financial position through the development of a long-term financial strategy.

**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:**

**Advisory Committees Consulted:**

Not applicable.

**PUBLIC INPUT:**

Posted publicly as part of the report process.

**INTERNAL / EXTERNAL CONSULTATION:**

The development of the Reserve and Reserve Fund Policy and 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:**

Periodically, amendments are required to the Reserve and Reserve Fund By-Law to reflect the changing financial landscape. This report recommends amendments to the by-law based on previous Council direction and staff analysis, as well as the creation of a comprehensive Reserve and Reserve Fund Policy.

**REPORT IMPACTS:**

Agreement: **No**

By-law: **Yes**

Budget Amendment: **No**

Policy: **Yes**

**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. 23-071-CRS Appendix A – Reserve and Reserve Fund Policy
2. 23-071-CRS Appendix B – Proposed Amending Reserve and Reserve Fund By-Law