

THE CORPORATION OF THE CITY OF VAUGHAN

CORPORATE POLICY

POLICY TITLE: CONSOLIDATED RESERVE AND RESERVE FUND

POLICY NO.: 12.C.10

Section:	Finance & Budgets		
Effective Date:	September 27, 2021	Date of Last Review:	November 14, 2023
Approval Authority: Council	Policy Owner: DCM, Corporate Services, City Treasurer & Chief Financial Officer		

POLICY STATEMENT

Reserves and Reserve Funds are important tools in the planning and management of the City’s financial resources and provide a strong indicator of the City’s overall financial health.

The City of Vaughan is committed to excellence in municipal governance. This policy establishes consistent guidelines and standards, which govern the use and management of reserves and reserve funds.

PURPOSE

The purpose of the Consolidated Reserve and Reserve Fund policy is to establish financial guidelines and appropriate controls for the administration of reserves and reserve funds for the City of Vaughan. This policy provides regulations and guidelines on the objectives, standards of care, reporting requirements and responsibilities for the creation and management of reserves and reserve funds.

SCOPE

This policy applies to all reserves and reserve funds of the Corporation of the City of Vaughan.

LEGISLATIVE REQUIREMENTS

Legislative and other authorities: All reserves and reserve funds will be managed in accordance with provincial legislation, as outlined within the Municipal Act, 2001.

Furthermore, a by-law to establish each reserve and reserve fund is required.

DEFINITIONS

1. **Annual Surplus:** The excess of revenues over expenses in a given fiscal year.
2. **Annual Deficit:** The excess of expenses over revenues in a given fiscal year.
3. **Development Charges:** Fees against land to pay in full or in part on the increased capital costs required because of increased needs for municipal services arising from development of the area in which the land is located.
4. **Discretionary Reserve Fund:** Established by Council to earmark revenues to finance a future expenditure for which it has the authority to spend money, and physically set aside a certain portion of any year's revenues so that the funds are available as required.
5. **Long Range Fiscal Plan and Forecast (LRFP):** A fiscal planning model and document which highlights constraints being faced by the City in the short, medium and long term. This forecast is used to assist in the planning of future budgets and subsequently of future reserve requirements.
6. **Reserve:** An appropriation from net revenue at the discretion of Council, after the 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, it can earn income from the investment of the reserve and form part of that reserve.
7. **Reserve Fund:** Funds that have been set aside for a future event either pursuant to a by-law of the municipality, a contractual obligation or a requirement of provincial legislation. Reserve funds are either "discretionary" being those set aside by Council of its own volition or "statutory" or "obligatory" being those required to be set aside by Council by virtue of a requirement of provincial statute. Municipal councils may set up reserve funds for any purpose for which they have the authority to spend money.
8. **Statutory/Obligatory Reserve Fund:** A reserve fund created when required by statute that the revenue received for special purposes be segregated from the general revenues of the municipality.
9. **Tax Levy:** The amount the City decided to raise in its budget for the year under s. 290 of the Municipal Act, 2001, also general levy.

POLICY

Reserves and reserve funds are fundamental to the City's long-term financial sustainability and overall financial health. The City is committed to maintaining healthy reserve and reserve fund balances which are collected through various means (i.e., development charges, contributions, dedications, taxation, etc.).

1. Types of Reserves and Reserve Funds

1.1. Statutory/Obligatory Reserves/Reserve Funds:

Obligatory reserves are funds that are segregated for specific purposes in accordance with Provincial statutes or other legal agreements. There are strict rules and restrictions around the collection and use of these reserves.

1.2. Discretionary Reserves/Reserve Funds:

Discretionary reserves and reserve funds are designated for various purposes supported by Council. Segregation is not required. These funds provide the City with financial flexibility to ensure that funds are available to finance a future expenditure or liability, manage cyclical expenditures and plan for contingencies.

1.3. Discretionary reserves and reserve funds are subdivided into:

1.3.1. Undesignated

1.3.2. Designated for contingencies

1.3.3. Designated for appropriations in future years.

2. Objectives of Reserves and Reserve Funds

Reserves and Reserve Funds provide stability and flexibility in the management and planning of the City's financial resources and contribute to the long-term sustainability of the City's services and infrastructure required to deliver the services.

2.1. Adequately Funded Reserves and Reserve Funds allow the City to:

- Provide for future expenditures and/or liabilities.
- Ensure funding is set aside to meet legislated and contractual obligations.
- Provide for major capital expenditures.
- Smooth expenditures which would otherwise cause fluctuations in the operating budget and tax levy.
- Take advantage of financial opportunities that may arise.
- Mitigate the impacts of economic downturns, disasters, pandemics and other negative events.
- Provide liquidity; and
- Provide for emergencies.

3. Establishing Reserves and Reserve Funds

3.1. A new reserve/reserve fund should only be established if it cannot be accommodated within an existing reserve and/or all alternative arrangements have been considered.

3.2. Reserves/reserve funds can be established by inclusion in the annual operating or capital budget, report to Council which are approved by Council or through resolution of Council. The budget document, report or resolution must clearly identify the name of the reserve being created and the purpose for the new reserve/reserve fund and include a financial plan which identifies the target funding level (if applicable), funding sources and projected disbursements (when practicable) to meet planned future obligations, and other relevant information where applicable.

4. Managing Reserves and Reserve Funds

To assist the City in managing reserves and reserve funds, where appropriate, guidance related to recommended reserve level targets and funding sources are provided in the reserve and reserve fund guidance in Appendix A.

Discretionary reserve fund balances will be determined by the City's fiscal strategies, financial obligations, future requirements pertaining to each of the reserve funds and available resources. The Chief Financial Officer has the authority to redirect funding between discretionary reserves.

4.1. Investment of Reserves and Reserve Funds

Reserves and reserve funds are to be invested and earn interest income for a term that coincides with the date that the funds are required. Applicable funds must be invested in accordance with the City's Investment Policy (FPDF-003).

4.2. Contributions to/withdrawals from Reserves and Reserve Funds

4.2.1. No portion of Reserve or Reserve Fund balances including contributions are to be funded by debt.

4.2.2. All contributions to and/or withdrawals from reserves and reserve funds shall be approved by Council, normally as a part of the annual budget process or specifically by resolution with the following exceptions:

4.2.2.1. Direct contributions to reserves and reserve funds such as development charge contributions.

4.2.2.2. Transfers of funds between Discretionary Reserves based upon reserve adequacy analysis, at the discretion of the Chief Financial Officer.

- 4.2.2.3. Transfers of funds between Discretionary Reserves for reserve restructuring which, in the opinion of the Chief Financial Officer, have not changed the purpose for which the funds were intended.
- 4.2.2.4. Contributions to and/or withdrawals from revolving reserves such as Insurance, Winterization, Employer Benefits, Working Capital and Tax Rate Stabilization can be made at any time at the discretion of the Chief Financial Officer for the purpose approved by Council.
- 4.2.2.5. The Chief Financial Officer can authorize the use of undesignated reserve(s) to fund costs related to an unforeseen event or occurrence deemed an immediate threat to public safety, the maintenance of essential City services, or the welfare and protection of persons, property, or the environment. Repayment of funds withdrawn is determined by the Chief Financial Officer based on needs and adequacy of balances.
- 4.2.2.6. The Chief Financial Officer has authority to withdraw funds from a reserve/reserve fund to pay for unanticipated operating expenses that are consistent with business objectives and support Council strategic priorities, but consistent with the intended purposes of the reserve or reserve fund up to \$250,000 per incident to an annual maximum of \$1 million. Withdrawals to be reported to Council semi-annually.

4.2.3. All contributions to and/or withdrawals from reserve and reserve funds will be clearly identified and segregated within the City's accounting system. Budgeted contributions to reserves and reserve funds will be transferred upon Council approval of the budget and contributions based on surplus variances will be transferred as required.

4.2.4. Reserve contributions and funding sources vary according to the specific reserve or reserve fund. Specific direction regarding these contributions and funding sources is detailed in Appendix A.

4.2.5. A reserve balance before commitments should not be in a deficit position. Only under very limited circumstances can a withdrawal /transfer place a reserve or reserve fund in a negative balance, excluding commitments and requires Council approval.

4.2.5.1. This does not apply to City- wide Management Studies where growth studies precede development.

4.2.5.2. If a reserve is in a negative financial position, restoring the reserve to zero or positive position takes priority over funding projects, costs or other initiatives the reserve is intended to fund.

4.3. Annual Surplus

4.3.1. Tax Supported Operations

Should the City be in a surplus position for tax supported operations at year-end, the surplus may be distributed within the following priority areas at the discretion of the Chief Financial Officer (up to the established maximum targets detailed in Appendix A):

- 4.3.1.1. Year-End Expenditure Reserve – The amount transferred to this reserve shall be based on qualifying requests approved by the Chief Financial Officer.
- 4.3.1.2. Infrastructure Renewal Reserve(s);
- 4.3.1.3. Tax Rate Stabilization Reserve;
- 4.3.1.4. General Working Capital Reserve; and/or
- 4.3.1.5. Any unfunded liabilities, or otherwise proven inadequacy in a reserve or reserve fund based on highest risk of immediate property tax impact as determined by the Chief Financial Officer.

4.3.2. Rate Supported Operations

Should the City be in a surplus position on rate supported operations at year-end, the distribution should be done as follows:

- 4.3.2.1. The surplus should be transferred to the corresponding reserve for each rate type (e.g., water surplus to Water Reserve, wastewater surplus to Wastewater Reserve and stormwater surplus to Stormwater Reserve).
- 4.3.2.2. If there is a proven inadequacy in any of the three reserves, funds can be transferred between the reserves at the discretion of the Chief Financial Officer.

4.4. Deficit Management

4.4.1. Deficits shall be financed by a transfer from the Tax Rate Stabilization Reserve.

4.4.2. If the Tax Rate Stabilization Reserve is insufficient, the deficit should be financed from the General Working Capital Reserve.

4.4.3. If the reserves described in sections 4.4.1 and 4.4.2 are not sufficient, the Chief Financial Officer should assess and select an appropriate reserve or reserve fund from which the funding can be drawn.

4.5. Lending/Transferring of Reserves and Reserve Funds for other purposes

4.5.1. Use for Other Purposes

If required, Council may provide specific approval to spend or apply discretionary reserves or discretionary reserve funds towards a purpose other than that for which it was established.

4.5.2. Transfers

If a reserve balance exceeds its targets, the excess portion may be transferred to the following priority areas and up to the established maximum targets detailed in Appendix A to this policy, at the discretion of the Chief Financial Officer:

4.5.2.1. Tax Rate Stabilization Reserve

4.5.2.2. General Working Capital Reserve (up to target limit of 10 per cent of own sourced (tax) revenues); and

4.5.2.3. Any unfunded liabilities, or otherwise proven inadequacy in a reserve or reserve fund on the basis of highest risk of immediate property tax impact as determined by the Chief Financial Officer

4.5.3. Internal Loans

Temporary intra-fund lending from reserves and reserve funds is permitted to temporarily finance capital expenditures or operating cash flow deficiencies to avoid external temporary borrowing costs. However, the following conditions must be met:

4.5.3.1. Borrowing will not adversely affect the intended purpose of the reserve.

4.5.3.2. A plan to repay the reserve within a reasonable timeframe as determined by the Chief Financial Officer, based on the nature of the loan and ability to repay is required.

4.5.3.3. If applicable, interest at the City's investment rate applied to reserves and reserve funds will be applied to the outstanding amount.

4.5.3.4. Interest income must be credited to the original reserve; and,

4.5.3.5. Where applicable, legislative requirements may apply.

4.6. 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 Financial Planning and Development Finance in consultation with the relevant Department Directors shall report to Council with recommendations on:

4.6.1. The closure of the reserve or reserve fund

4.6.2. The disposition of any remaining funds

4.6.3. The necessary amendment to the Reserve by-law

4.6.4. A resolution from 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.

4.7. Monitoring and Reporting

The Chief Financial Officer will prepare the following reports with respect to reserves and reserve funds:

4.7.1. Annual Budget and Business Plan

Contributions to and budget appropriations from reserves and reserve funds will normally be approved by Council as a part of the annual budget or specifically by resolution.

4.7.2. Development Charge, Cash in Lieu of Parkland and Community Benefits Charge Reserve Fund Statement

The Development Charges Act, 1997 (the "DCA) and the Planning Act, require that the Treasurer of the municipality provide to Council, annually, a statement relating to Development Charges (DC), Community Benefits Charge (CBC), and the Cash-in-Lieu of Parkland (CIL) reserve funds. This statement will then be forwarded to the Ministry of Municipal Affairs and Housing upon request.

4.7.3. Annual Audited Financial Statements

Shall include a statement of financial position, financial activities and changes in fund balances for all reserves and reserve funds.

4.7.4. Report on Reserve and Reserve Fund Activity

On an annual basis, a Report on the activity of Reserves and Reserve Funds will be prepared that includes a summary of the transfers to and from reserves, a continuity schedule of reserves and reserve funds and current reserve ratios. This can be included in the Fiscal Health Report or as a separate report on Reserve and Reserve Funds.

4.7.5. Periodic Adequacy Review

A comprehensive review of the reserves and reserve funds will be undertaken as required to determine if the existing balances are adequate based on analysis of requirements, that the need for the reserves or reserve funds still exists and/or identify the need for any new reserves or reserve funds.

5. Roles and Responsibilities

5.1. Municipal Council

- 5.1.1. 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 to maintain the financial integrity of the municipality.
- 5.1.2. 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).

5.2. Chief Financial Officer

The Chief Financial Officer has overall responsibility for the management of reserves and reserve funds. In addition, the Chief Financial Officer has the authority to rebalance undesignated discretionary reserves and reserve funds within the same funding sources as he/she deems necessary; and approve updates to the appendices in accordance with this policy, by-laws or statues as amended.

5.3. Director, Financial Planning and Development Finance and/or designate

- 5.3.1. Determines the need for reserves and reserve funds for operating and capital operation through the development of the long-range fiscal planning strategy.
- 5.3.2. Sets targets for various reserves and reserve funds where appropriate.
- 5.3.3. Ensures a review and report to Council on the adequacy and continuing need for reserves and reserve funds is undertaken when deemed necessary.
- 5.3.4. Arranges for the preparation and presentation of required reports and/or by-laws for the creation or termination of any new or obsolete reserve or reserve funds.
- 5.3.5. Develops appropriate strategies, procedures, and processes for the investment of reserves and reserve funds.
- 5.3.6. Ensures that the appropriate allowances, contributions and/or appropriations are accounted for in the City's Annual Budget relating to the financial requirements of the reserves and reserve funds.
- 5.3.7. Monitors and reconciles all receipts to and disbursements from reserve and reserve fund accounts to ensure compliance with Provincial regulations.

5.4. Director, Departments and/or designate

5.4.1. Provide the Director of Financial Planning and Development Finance with the most current capital asset information to be used in the assessment for the adequacy of capital lifecycle reserves.

5.4.2. Inform the Director of Financial Planning and Development Finance when the reserve or reserve fund transfers are required; and Consult with the Director Financial Planning and Development Finance when reserve funds are required for unbudgeted transactions.

ADMINISTRATION

Administered by the Office of the City Clerk.

Review Schedule:	3 Years <small>If other, specify here</small>	Next Review Date:	November 14, 2026
Related Policy(ies):	12.C.11 – Operating Budget, 12.C.12 – Capital Budget, 12.C.09 – Corporate Debt, CL-010 – Accountability and Transparency, 12.C.04 – Letter of Credit, FPDF-003 – Investment		
Related By-Law(s):			
Procedural Document:			

Revision History

Date:	Description:
23-Oct-23	Detailed new guidelines, increased roles and responsibilities, reprioritization of reserves and formatting.
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