

POLICY

POLICY TITLE: General Reserve and Reserve Fund Policy

POLICY NUMBER: PLCY-2018-XXXX

DATE: June 1, 2018

1.0 PURPOSE

It is the policy of the Town of Halton Hills to establish reserves and reserve funds to ensure the ongoing financial stability of the organization for planned future capital expenditures, unexpected or unpredicted events or to smooth expenditures which would otherwise cause fluctuations in the operating or capital budgets.

This policy provides guidelines for the maintenance, management and accounting of reserves and reserve funds.

2.0 POLICY DETAILS

A financial reserve is a provision or amount that is designated for a future purpose that extends beyond the current fiscal year. Reserves are established for a variety of purposes to ensure the ongoing financial stability of the organization. The primary purposes are:

- To protect against known risks or unforeseen events
- To provide for life cycle accounting
- To meet specific liabilities
- To smooth expenditures which would otherwise cause major fluctuations in operating or capital budgets
- To provide for future major expenditures
- To provide a source of internal financing
- To provide flexibility to manage debt levels

The Town of Halton Hills has a variety of reserve funds (obligatory and discretionary) and reserves as outlined in Schedule 1.

3.0 DEFINITIONS

Capital Reserves: Capital reserves are a set of funds used to set aside money for the acquisition, repair and/or renewal of capital infrastructure. Funds are utilized to assist in the financing of infrastructure renewal, asset replacement costs identified by the

Corporate Asset Management Plan, and to supplement capital funding to allow access to funding programs through other levels of government.

Deferred Revenue: Amounts that have been collected but the related services have not yet been performed. These amounts will be recognized as revenue in the fiscal year the services are performed.

Draw Down: The utilization of funds from a reserve or reserve fund to pay for Council authorized expenditures.

Interest Allocation: The monthly allocation of investment interest to reserve funds (obligatory and discretionary) and to the contingency reserve.

Library Reserve: An allocation of accumulated net revenue earned by the Halton Hills Public Library Board. Funds held in this reserve can be used at the discretion of the Board and Council subject to the parameters defined for the reserve when established.

Operating Reserves: Unrestricted funds set aside to provide for potential future planned or unplanned expenditures.

Reserves: Are an allocation of accumulated net revenue. They are not associated with any specific asset. A reserve is generally used to mitigate the impact of fluctuations in operating costs and revenue.

Reserve Funds: Are segregated and restricted to meet a specific purpose. They represent monies set aside either through a municipal by-law or to meet a provincially legislated requirement. Interest earned on reserve funds must be allocated to the specific reserve fund that earned it. There are two types of reserve funds, Discretionary and Obligatory.

- **Discretionary Reserve Funds** are established, based on Council direction, to finance future expenditures for which the Town has the authority to spend money or to provide for a specific contingent liability.
- **Obligatory Reserve Funds** are created whenever a provincial statute requires revenue received for special purposes to be segregated from the general revenue of the municipality. Obligatory reserve funds can only be used for their prescribed purpose.

Stabilization Reserves: Are created to offset extraordinary and unforeseen expenditures requirements, and address volatility in the tax rate. They may also be used to fund revenue shortfalls and assist with the management of cash flows.

4.0 KEY ROLES/RESPONSIBILITIES:

Council Authority

- Establish new reserves
- Close existing reserves no longer required
- Amalgamate reserves

- Transfer funds to and from reserves via the budget process
- Transfer funds to and from reserves through Council resolution not addressed during the budget process

Staff Authority

- Provide recommendations for the establishment or dissolution of reserves
- Provide analysis and recommendations on the adequacy of reserves
- Provide recommendations on the transfer of funds to and from reserves
- Management of reserve and reserve funds in accordance with legislation and the Town's policies & bylaws.

5.0 PROCEDURES:

Formation and dissolution: Council approval must be established prior to the formation and dissolution of any reserve or reserve fund.

Before creating a new reserve, the option of adding an incremental contribution to an existing reserve or reserve fund of a like nature will be considered. A new reserve can be created through the annual operating or capital budget process or through resolution of Council. Recommendations of the establishment of a new reserve must include:

- Statement of purpose
- Target balance
- Funding sources
- Contribution requirements including Interest allocation
- Utilization requirements

A report recommending the dissolution of a reserve for which the purpose of the reserve has been accomplished will include:

- Recommended closure of the reserve
- Disposition of remaining funds
- Necessary amendments to this policy

Adequacy: The adequacy of an individual reserve or reserve fund is determined on a case by case basis using the Long Range Financial Plan Model. Updated forecasts of a reserve or reserve fund will be provided to assist with the evaluation of any increases/decreases in contributions or new expenditures. Forecasts will be developed for each reserve and reserve fund and will be updated annually as a minimum.

Use of reserves: All appropriation to or from reserves or reserve funds must be in accordance with the Town's financial policies and by-laws and must be approved by Council through resolution or the annual budget process.

Reserve fund borrowing: Inter-fund borrowing to cover a reserve fund shortfall is permitted and encouraged to avoid debt borrowing costs. The term of loan will not exceed 20 years or the life of the need. Interest will be paid to the reserve or reserve fund that has provided the funding at the average blended interest rate used to allocate interest earnings. The Development Charges Act (DCA) allows for inter-fund borrowing between DC reserve funds.

Debt repayment supported through reserve funds: Funding of debt costs are identified in the operating budget and may be supported through a reserve contribution. Analysis of the reserve forecasts on an annual basis are required to ensure adequate funding availability.

Development charges financing: The requirement to borrow for DCs will be monitored as part of the capital budget process and tracked to determine the timing of the gap, and financing required. Where debentures are issued on behalf of DCs, the Town will separately track the repayments (including interest) to be recovered from future DCs collected, in accordance with the DCA. DC eligible capital costs with future benefit will be funded by non-DC sources and tracked so that the amounts can be included in future DC Studies.

Debt charges (principal and interest) for DC borrowing are included in the Council approved debt limit of 10% of the net levy and the maximum term for borrowing will not exceed 20 years. Developer related advanced financing arrangements in accordance with the DCA will be reviewed prior to issuing debt.

Authorization: The Treasurer and their designate, the Deputy Treasurer and Commissioner of Corporate Services, is responsible for monitoring the status of the reserve and reserve funds. Corporate Services is responsible for determining the appropriate source of financing for the Town's programs and capital works, and are in the position to make recommendations to Council on the use of reserve funds. Utilization of funds from a reserve must be identified in an approved annual budget or as separate report signed by the Treasurer and submitted to Council for approval outside the normal annual budget process. The Treasurer may exercise discretion to authorize use of reserve monies up to \$25,000 per Town program or capital project.

Interest allocation: Reserve and reserve funds must be invested in accordance with the Town's approved Investment Policy. Interest and investment income will be distributed to all Reserve Funds, as required by statute or legislation, on the proportionate share of the fund to the total average balance of the portfolio at month end.

Interest earnings in excess of the budgeted amount will be transferred to the Contingency Reserve for use as recommended by the Treasurer or their designate to address unanticipated expenditures and fluctuations in operations. The Treasurer will assess the requirement and need for interest allocation annually as part of the Long Range Financial Plan review.

If a reserve fund has an unfavourable balance, interest will be charged to that fund at the same interest rate used in calculating interest revenue. Interest revenue or expense will be credited to the capital fund for work-in-progress projects and interest will be transferred to the Capital Replacement Reserve annually.

Contribution timing: Contributions from operating budgets will be transferred to the reserve monthly at a rate determined by the Long Range Financial Plan. The annual operating surplus will be distributed amongst Reserves and Reserve Funds as

determined by the Treasurer or their designate. Capital project surpluses will be returned to the reserve they were funded from.

Contributions from reserves and reserve funds to capital or operating accounts will be done upon approval of the Operating and Capital budgets. Transfers from a reserve will not occur if the transfer will put the reserve or reserve fund in a negative balance. Inter-fund borrowing will be investigated as a funding source for DC reserve funds or for the operating fund.

Capital reserves may be used to access funding programs through other levels of government by committing Town funds to projects or proposed projects in order to leverage funding opportunities.

Reporting: Reserve and reserve fund balances, including cash inflows and outflows as well as projected contributions and draw downs are to be reported to Council quarterly. Financial trends will be monitored through the use of financial indicators and included with the Annual Financial Statements.

The Town will comply with reporting requirements of the Ministry of Municipal Affairs and Housing by providing an annual statement of Development Charges, in accordance with the Development Charges Act. This annual statement will be provided to Council, members of the public and the Ministry annually.

6.0 POLICY REVIEW:

The General Reserve and Reserve Fund Policy will be reviewed annually.

This General Reserve and Reserve Fund Policy rescinds policy CL-2012-0001 as amended by Council Resolution No. 2014-0026.

Schedule 1 Reserves Funds and Reserves

Reserve Name Purpose	Target Balance	Funding Source	Utilization of Funds	Fund
Obligatory Reserve Funds				
Development Charges				
Administration To fund growth related administration capital costs.	Based on growth activity outlined in the current DC Study	Developer contributions in accordance with the DC By-law	Eligible growth related capital costs identified in the DC Study.	17
Fire Services To fund growth related fire services capital costs.	Based on growth activity outlined in the current DC Study	Developer contributions in accordance with the DC By-law	Eligible growth related capital costs identified in the DC Study.	14
Library Services To fund growth related library services capital costs.	Based on growth activity outlined in the current DC Study	Developer contributions in accordance with the DC By-law	Eligible growth related capital costs identified in the DC Study.	16
Parking Services To fund growth related parking services capital costs.	Based on growth activity outlined in the current DC Study	Developer contributions in accordance with the DC By-law	Eligible growth related capital costs identified in the DC Study.	13
Recreation and Parks Services To fund growth related recreation and parks services capital costs.	Based on growth activity outlined in the current DC Study	Developer contributions in accordance with the DC By-law	Eligible growth related capital costs identified in the DC Study.	15
Stormwater Management Services To fund growth related stormwater management services capital costs.	Based on growth activity outlined in the current DC Study	Developer contributions in accordance with the DC By-law	Eligible growth related capital costs identified in the DC Study.	12
Transit Services To fund growth related transit services capital costs.	Based on growth activity outlined in the current DC Study	Developer contributions in accordance with the DC By-law	Eligible growth related capital costs identified in the DC Study.	18
Transportation Services To fund growth related transportation services capital costs.	Based on growth activity outlined in the current DC Study	Developer contributions in accordance with the DC By-law	Eligible growth related capital costs identified in the DC Study.	11

Reserve Name Purpose	Target Balance	Funding Source	Utilization of Funds	Fund
Deferred Revenue				
Building Permit To address likely ranges in year-to-year volatility of service volumes in accordance with the Building Code Act. The reserve is used to defer revenues received in advance of work being performed.	Not applicable Fund balance reflects unearned revenues as per revenue recognition criteria	1. Annual revenue received in advance of associated expenses based on expense to revenue formula 2. Building permit fees collected between September and December are deferred to the following year	Activities that support the delivery of building permit services and are embedded in the building permit fee structure.	21
Canada Gas Tax Funding To fund infrastructure capital projects in accordance with the terms of the Municipal Funding Agreement.	Not applicable Fund balance reflects unearned revenues as per revenue recognition criteria	Federal Government contributions delivered through AMO	Eligible programs outlined in the Municipal Funding Agreement.	22
Deferred Federal Grants To track revenues received from Government grants and fund programs and capital projects identified in the grant agreements.	Not applicable Fund balance reflects unearned revenues as per revenue recognition criteria	Government grant contributions	Eligible programs outlined in the Government grant funding agreement.	23
Parkland: Cash In Lieu To fund the acquisition of land for parks or to fund the development of parkland.	Not applicable	Contributions received in lieu of land being conveyed to the Town for parkland requirements as per the Planning Act	Purchase of land for parks or recreational purpose and development or redevelopment of land, parks and recreational facilities.	25
Discretionary Reserve Funds				
John Elliott Award To provide awards to students of Georgetown District High School.	Per By-law 81-153 the fund shall not be allowed to decrease below \$10,000	One time donation of \$10,000 in memory of the late John Elliott	Guidelines on awards as outlined in By-law 81-153.	60

Reserve Name Purpose	Target Balance	Funding Source	Utilization of Funds	Fund
Reserves				
Capital Reserves				
Capital Replacement To fund the replacement or extend the useful life of existing capital assets.	The average annual replacement requirements for capital assets as identified in the ten year capital forecast and outlined in the Town's Corporate Asset Management Plan	1. Annual operating contribution as informed by the Corporate Asset Management Plan 2. Gains on sale of buildings	Replacement or renewal of assets as identified and prioritized in the Corporate Asset Management Plan, or to minimize risk by completing emergency repairs. Major rehabilitation of existing buildings or assets.	39
Cemetery Development To provide for the purchase, replacement and expansion of capital items related to Cemetery operations.	The average annual requirement as identified in the Cemetery Business Plan	Annual operating contributions	Capital costs of future columbarium purchases and expansion as well as renewal costs of existing columbarium.	66
Equipment To fund the replacement of the Town's rolling stock and equipment.	The average annual replacement requirements for rolling stock and equipment as determined by the ten year replacement forecast	1. Annual operating contributions 2. Gains on sale of equipment	Purchase of operations vehicles and equipment, fire trucks, special transit buses, recreation equipment and vehicles, and by-law enforcement vehicles.	52
Library To fund the Library non-growth capital projects and operating budget deficits for the Library.	The average annual replacement requirements for Library Services as determined by the ten year replacement forecast with a minimum balance of \$10,000	1. Annual operating surplus from the Library 2. Additional funding will be provided by the Town to the Library Board should unplanned non-discretionary cost increases occur within any given budget year	Capital requirements of the Library as it relates to non-growth capital projects and annual operating budget deficits.	74

Reserve Name Purpose	Target Balance	Funding Source	Utilization of Funds	Fund
New Capital To fund new capital assets.	The average annual amount informed by the Town's Development Charges Study and ten year capital forecast	1. Funded through the phase-out of the GTA pooling at the Region to a \$2M per year cap 2. Annual operating contribution 3. Gains on sale of surplus land	Supplement non-development charge costs of growth-related capital projects. Construction costs of new infrastructure.	40
Public Art To fund the installation of public art on Town-owned property or within Town-owned infrastructure in accordance with the Public Art Policy.	Minimum balance of \$100,000	Annual operating contribution	Planning, design, fabrication and installation of public art on Town-owned property or within Town-owned infrastructure. The development and updating of a Public Art Master Plan.	79
Technology Replacement To fund the replacement of computer hardware based on a replacement cycle and computer software acquisitions.	The average annual replacement requirements for hardware and software as determined by the ten year replacement forecast	1. Annual operating contributions 2. Gains on sale of information technology equipment	Purchase of computer hardware and software outlined in the 10 year capital forecast and associated training costs.	31
Transportation Infrastructure To fund the rehabilitation and replacement of transportation infrastructure assets.	The average annual replacement requirements for transportation infrastructure assets as determined by the ten year capital forecast	Annual operating contribution	Replacement or rehabilitation costs to extend the useful life of transportation infrastructure assets including roads, sidewalks parking lots and associated assets.	55
Stabilization Reserves				
Contingency To provide for unforeseen expenditures or uncertain liabilities including unplanned changes affecting the Town's operations.	Not applicable	Contribution of interest earned in excess of budgeted amount	Unforeseen and emergency expenditures as well as uncertain new expenditures.	34

Reserve Name Purpose	Target Balance	Funding Source	Utilization of Funds	Fund
Severe Weather Event To set aside funding for winter control costs which exceed the Town's current year operating budget allocation.	20% of the annual operating budget for winter control to a maximum of \$750,000	Annual operating contribution	Annual winter control deficits or severe weather events.	51
Tax Rate Stabilization To mitigate tax rate changes during the preparation of the annual operating budget and to protect the Town against unanticipated operating expenditures or to smooth expenditures that do not occur annually.	10-20% of the previous year's tax levy	Annual operating contribution	One-time expenditures identified through the operating budget or annual operating deficits.	36
Operating Reserves				
Community Sustainability To support community projects related to the environment and sustainability.	Zero	Donation from TransCanada Energy	Community projects that support Council's objectives related to the environment and sustainability. Includes the Corporate Sustainability Action Plan initiatives and funding for the Community Sustainability Investment Fund.	77
Fire Services To support the incremental hiring of full time fire staff and increases to operating costs to support full time future operations of the Fire Department as the Town grows.	Annual salaries of fire staff identified in the Fire Master Plan until such time as the service is operating on full time basis	Annual operating contribution	Annual operating costs associated with hiring full time fire staff in the Fire Department. Contingencies to support changes to future operations of the department.	70
Georgetown Hospital Expansion and Renovation To fund the debenture costs associated with the Town's share of the 2011 Georgetown Hospital redevelopment.	Based on the annual debenture payment schedule	Annual operating contribution	Debenture payments for Georgetown Hospital redevelopment. Repayment to be completed in 2021.	38

Reserve Name Purpose	Target Balance	Funding Source	Utilization of Funds	Fund
Strategic Planning To fund programs which support the strategic direction of Council.	The average annual funding requirements for strategic planning	Annual operating contribution	Capital projects and programs that support the strategic direction of Council as prioritized by the capital ranking of NTCA projects.	41
WSIB The Town is classified as a "Schedule 2" employer and is responsible for the costs of its workers' compensation claims.	Based on the annual actuarial evaluation	Annual operating contribution	Accident claims filed by employees who are injured in the workplace. Claims filed by employees or their survivors for work-related occupational diseases as set out in the applicable Regulation.	32