



# Reserve Management Policy

Contact: Senior Financial Management Advisor

Approval Authority: Council

Effective: September 21, 2023

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## Purpose

The purpose of the consolidated Reserve Management Policy is to establish financial guidelines and appropriate controls for the administration of reserves for the Town of Aurora.

This policy provides regulations and guidelines on the objectives, standards of care, reporting requirements and responsibilities for the creation and management of reserves.

## Scope

This policy applies to all aspects of the reserves of the Town of Aurora.

## Definitions

**Annual Surplus:** The excess of revenues over expenses in a given year.

**Community Benefit Charge (CBC):** Fee allowed under Section 37 of the Planning Act, which allows a municipality to impose community benefits charges against land to pay for growth driven capital costs of facilities, services and matters required because of development or redevelopment. Collected CBCs are consolidated within an Obligatory/Statutory reserve to be applied to future eligible growth requirements.

**Cash in Lieu (CIL) Parkland:** In some instances, the Town will elect that required growth driven parkland be provided as cash-in-lieu of land. Collected CIL Parkland is consolidated within an Obligatory/Statutory reserve to be applied to future eligible growth requirements.

**Delegation By-law:** The Town's By-law Number 6212-19, as amended, or any successor by-law thereto.

**Development Charges (DC):** Fees against land to pay in full or in part on the increased capital cost required because of increased needs for municipal services arising from development of area in which the land is located.

**Deferred Revenue:** Deferred revenue is money received in advance for products or services that are going to be performed in the future. For example, development charges are collected in advance before the capital infrastructure is built.

**Discretionary Reserves:** 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.

**Reserve:** A reserve is money set aside by municipalities for a specific purpose or use. While Ontario legislation requires municipalities to establish certain reserve in certain circumstances, municipal councils have the discretion to establish reserves for any purpose for which they have the authority to spend money. Such reserves are intended to smooth levy requirements for large and/or one-time purchases, mitigate credit market risk by saving for future capital needs and reducing dependency on debt, as well as provide self-insurance for uncertainties such as extreme events, events of magnitude, cyber-crime, etc.

**Reserve Funds:** 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 or federal statute. Municipal councils may set up reserve funds for any purpose for which they have the authority to spend money.

**Tax Levy:** The portion of funds that are collected through property taxes on taxable and payment-in-lieu assessment of the residential, farm, commercial, industrial, and other categories of property.

**Treasurer/Director of Finance:** The Treasurer/Director of Finance of the Town or his/her/their designate.

**Obligatory/Statutory Reserve:** A reserve created when required by statute that the revenue received for special purposes be segregated from the general revenues of the municipality.

## **Policy**

Reserves play a vital role in long-term fiscal planning and financial sustainability to support the Town's financial health. By taking a long-term view of reserves, the Town can plan for future increases in asset management capital plan needs and more effectively fund them over time while minimizing the annual impact to tax and ratepayers, to ensure the funds are available when needed to support the plan. Reserves

allow for the collection and deferral of development revenues for application toward eligible future growth requirements. Reserves also plays a key role to manage the unexpected economic impacts to Town's operating budget when required. The policy outlines the following guidelines and appropriate controls for the administration of reserves such as:

### **Types of Reserves**

#### *Statutory/Obligatory Reserves:*

Obligatory reserves are funds that are segregated for specific purposes in accordance with Provincial statues or other legal agreements. There are strict rules and restrictions around the collection and use of these reserves such as deferred revenue reserves (DC / CBC / CIL Parkland funded reserves)

#### *Discretionary Reserves:*

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

Discretionary reserves are subdivided into following categories:

1. Tax levy funded reserves – reserves funded by the tax levy and are established by Council for the repairs and rehabilitation of existing Town assets or to pay for the portion of new assets that are not funded from growth revenues such as DC's or to funds the Town's masterplan and study development.
2. User Rate funded reserves – The user rate funded reserves are funded from the water, wastewater, and stormwater rates.
3. Operating /special purpose reserves - Reserves funded by levy or other revenue sources are used to mitigate or stabilize the impact on service levels, tax rates and user fees of revenues shortfalls, higher-than-expected expenses and large periodic or one-time expenses.

### **Objectives of Reserves**

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

Adequately funded reserves allow the Town 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.

### **Establishing Reserves**

A new reserve should only be established if it cannot be accommodated within an existing reserve and/or all other possible alternatives have already been considered.

The Treasurer/ Director of Finance has the delegated authority to create new reserves as required as per the delegation by-law. However, Council should be informed of any reserve creation via report to Council or as part of the annual budget development. The budget document, report or resolution must clearly identify the name of the reserve being created and the purpose for the new reserve 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. In consideration of the administrative workload the Town will strive to minimize the number of reserves.

### **Managing Reserves**

To assist the Town in managing reserves, where appropriate, guidance related to recommended reserve level targets and funding sources are provided on the Town's web reserve schedule ([schedule of reserve funds](#))

Discretionary reserve balances will be determined by the Town's [Fiscal Strategy](#) financial obligations, future reserve requirements and available resources. As per the delegated authority by Council the Treasurer/Director of Finance can redirect funding between discretionary reserves. The Town should apply the following guidelines for the management of reserves:

#### *Investment of Reserves*

Reserves are to be invested and earn interest income for a term that coincides with the Town's fiscal year. Applicable funds must be invested in accordance with the Town's Investment Policy.

### *Contributions to/withdrawals from Reserves*

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

- Direct contributions to reserves such as development charge contributions;
- Transfers of funds between Discretionary Reserves based upon reserve adequacy analysis, at the discretion Treasurer/ Director of Finance;
- Transfers of funds between Discretionary Reserves for reserve restructuring which, in the opinion of the Treasurer/ Director of Finance, have not changed the purpose for which the funds were intended;
- Transfers to reserves as per the Town's surplus/deficit management bylaw;
- Contributions to and/or withdrawals from revolving reserves such as Winter Management, Employer Benefits and Tax Rate Stabilization can be made at any time at the discretion of the Treasurer/ Director of Finance for the purpose approved by Council;
- The Treasurer/ Director of Finance 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 Town services, or the welfare and protection of persons, property, or the environment. Repayment of funds withdrawn is determined by the Treasurer/ Director of Finance based on needs and adequacy of balances;
- All contributions to and/or withdrawals from reserves will be clearly identified and segregated within the Town's accounting system. Budgeted contributions to reserves will be transferred upon Council approval of the budget and contributions based on surplus variances will be transferred as required.
- Staff to give funding priority to other revenue sources first such as grants if applicable before accessing reserve funds to fund capital projects;
- Growth projects should be funded by development charge revenue as outlined in the DC study and only the benefit to existing (non-development charge eligible costs) should be funded through the tax-levy reserves;
- Reserve contributions and funding sources vary according to the specific reserve. Specific direction regarding these contributions and funding sources is provided on the Town's web reserve schedule ([schedule of reserve funds](#))

### *Reserve balance deficit should be avoided as a best practice*

A reserve balance before commitments should not be in a deficit position. Only under very limited circumstances can a withdrawal /transfer place a reserve in a negative balance, excluding commitments and will requires Council approval. As a best practice, negative reserve balances should be minimized as this represents inter-fund lending which takes away the flexibility of the lending reserves.

Council may, where it is deemed to be in the best interest of its taxpayers, approve the issuance of debt for the Town's municipal business. Issuing debt provides the flexibility to proceed with planned capital projects sooner rather than waiting to collect the funding source for the project in a reserve. Debt issuance should be viewed in combination with long-term capital planning and reserve management as outlined in the Town's fiscal strategy.

~~This does not apply to studies or master plans where growth studies precede development.~~ 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.

#### *Annual Surplus/Deficit*

As outlined in the Town's surplus/deficit management bylaw and within this policy, the following steps for the allocation of tax-funded operating surplus and deficit management using reserves should be followed in this order:

1. The supplementary tax revenue growth in excess of the net budgeted amount be allocated to the Growth and New reserve.
2. Any net operating budget surplus in Winter Control operations be allocated to the Winter Control reserve. This contribution is not to exceed the Town's total tax-funded surplus.
3. Any remaining net operating surplus be allocated 50 percent to the tax rate stabilization reserve and 50 percent to be allocated to tax-funded capital reserves based on the future asset management plan requirements.
4. Any Aurora Public Library surplus will be allocated to the facilities asset management reserve.

Alternatively, should a net tax-funded operating deficit occur, it would be funded from the tax rate stabilization reserve. For the Town's user rate funded operating budgets, any arising surplus or deficit for building services, water, wastewater, and storm water operating budgets are to be managed through their own reserves.

#### *Inter-fund lending*

Temporary intra-fund lending between reserves 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:

- Borrowing will not adversely affect the intended purpose of the reserve;

- A plan to repay the reserve within a reasonable timeframe as determined by the Manager Financial Management, based on the nature of the loan and ability to repay is required;
- If applicable, interest based upon the Town's investment rate of return will be applied to any outstanding borrowed amounts;
- All earned interest income must be allocated to lending reserve(s); and
- Where applicable, legislative requirements may apply.

### *Closing Reserves*

If the purpose or purposes for which a reserve was created has been accomplished and the reserve is determined to be no longer necessary, the Treasurer/Director of Finance has the authority to close the reserve as per the delegated authority by Council. Council should be informed via report or through the annual budget process with the following information and/or recommendations (if necessary) pertaining to each deleted reserve:

- the closure of the reserve
- the disposition of any remaining funds
- the necessary amendment to the Reserve by-law

For any of the Town's legacy reserves, the by-law under which they were initially created may need to be amended to reflect the reserve's closure. Otherwise, the Treasurer is able to close the reserve as per the delegated authority.

### *10-year reserves forecast*

A 10-year reserve forecast should be maintained by the Finance team to ensure the proper planning and analysis of reserve health. The reserve forecast should include the planned draws from the reserves which align with 10-year capital plan. The reserve forecast should also include applicable planned contributions to reserves from various sources such as tax-levy, DC's, investment income, grant revenue or any user rate fee revenues.

## **Responsibilities**

### **Council**

Council shall:

- In accordance with the S.224 of the *Municipal Act 2001*, 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.
- Approve transactions to and from reserves through the budget process or by specific resolution and by-laws.

### **Treasurer/Director of Finance**

- Overall responsibility for the management of reserves;

- Authority to rebalance discretionary reserves within the same funding sources as they deem necessary;
- To create new and close reserves; and

### **Manager Financial Management**

- Ensures a review and report to Council on the adequacy and continuing need for reserves is undertaken when deemed necessary.
- Arranges for the preparation and presentation of required reports and/or by-laws for the creation or termination of any new or obsolete reserve.
- Develops appropriate strategies, procedures, and processes for the investment of reserves.
- A plan to repay the temporary lending of funds between reserve within a reasonable timeframe along with the interest payments.

### **Senior Financial Management Advisor**

- Determines the need for reserves for operating and capital through the development of the long-range fiscal planning strategy.
- Ensures that the appropriate allowances, contributions and/or appropriations are accounted for in the Town's annual budget relating to the financial requirements of the reserves.
- Monitors and reconciles all receipts to and disbursements from reserve accounts to ensure compliance with provincial regulations.

### **Executive Leadership Team, Corporate Management Team**

- Provide Financial Management with most current capital asset requirements that remain in alignment with the approved asset management plan to be used in the assessment of the adequacy of capital lifecycle reserves.
- Inform Financial Management when reserve transfers are required; and Consult with the Director of Finance when reserves transfers are required in support of unbudgeted transactions.

### **Monitoring and Compliance**

The implementation of the reserve management policy should be monitored through:

- *Annual Budget*: Contributions to and from reserves should be approved by Council as a part of the annual budget approval. The annual budget binder will include an updated 10- year reserve forecast and details regarding reserve health.
- *Annual Audited Financial Statements*: Shall include a statement of financial position, financial activities, and changes in fund balances for all reserves.



- *Report on reserve addition or deletion:* An update on the addition or deletion of reserves will be provided to Council via report.
- *Periodic adequacy review:* A comprehensive review of the reserves will be undertaken as required to determine if the existing balances are adequate based on analysis of requirements, that the need for the reserves still exists and/or identify the need for any new reserves.

## **References**

- [Fiscal Strategy](#)
- [Debt Policy](#)

## **Review Timeline**

This policy will be reviewed 2 years after the initial approval date.