

Type: Open Session

Report To: Finance Standing Committee

Meeting Date: October 24, 2024

Subject: FIN-24-33 Reserve & Reserve Fund Policy Update

Recommendation(s)

1. That report FIN-24-33, Reserve & Reserve Fund Policy Update, dated October 24, 2024 be received; and
2. That the amended Reserve & Reserve Fund Policy, attached as Appendix A, be approved.

Executive Summary

This policy was last approved in November 2021 and is due for review. The revised policy is attached to this report as Appendix A. Revisions to the policy have been included in red for ease of reference.

Purpose

The purpose of this report is to provide the Finance Committee with updated revisions to the Town's existing Reserve & Reserve Fund Policy.

Background

The policy serves as a guideline for establishment, management, and use of Town reserves and reserve funds. The current Reserve & Reserve Fund Policy has not been updated since 2021 and is due for renewal.

Reserves and reserve funds are financial management tools that help support long-term municipal objectives while balancing current and future spending requirements. Having appropriate and adequately funded reserves is a primary way to fulfill our financial obligations with respect to predictable expenditures such as those related to tangible capital assets as well as to cover unpredictable expenditures such as for emergencies.

A "reserve" may be established to account for assets or Town priorities that have been segregated for a specific purpose. Reserves are established at Council's discretion. Examples are asset renewal and rehabilitation reserves and contingency reserves.

A “Reserve Fund” may be established to account for assets that have been segregated for a specific purpose as required by statute. These funds must be used solely for the purpose prescribed for them by statute. Examples include the Building Reserve Fund, Development Charges Reserve Fund and Parkland Dedication Reserve Fund.

The policy outlines different types of reserves as follows:

Contingency & Stabilization Reserves

These types of reserves are maintained to help buffer the impact of unusual or unexpected costs. These reserves can be used to cover budget deficits that may be realized. These reserves would also be a funding source for unbudgeted or unexpected costs that may arise.

For these types of reserves, it would be prudent to establish a target reserve balance so that the reserve is adequately funded to serve its purpose. If the reserve were to be underfunded, it would not be able to serve its purpose to act as a safeguard for unplanned expenses. However, if the reserve is overfunded that could be an indication that too many funds have been set aside that could be used in a more value-added manner.

Target reserve balances for our contingency and stabilization reserves are included in Appendix B.

Asset Renewal and Rehabilitation Reserves

These types of reserves are maintained to fund the ongoing maintenance and renewal of our many capital assets. By planning for these costs and maintaining adequate reserve contributions, we will be able to perform regular maintenance and refurbishments of our assets at the appropriate time in their life cycle, promoting optimal use of municipal assets.

The consequence of not having adequately funded reserves is that regular maintenance gets deferred, potentially shortening the asset life in the long run and we run the risk of assets being out of service for emergency repairs. Over extended periods of time asset renewal backlogs develop that become harder to overcome as time goes on. Reliance is then increased on debt funding and the associated interest costs that debt incurs.

These types of reserves are relied on for specific assets and as a sustainable funding source over varying periods of time and may require the use of substantial funds in certain years versus others. As a result, a targeted *annual contribution* level should be

established to achieve fiscal sustainability over the life cycle of the assets the reserve supports. This is in contrast to a target reserve *balance*.

The Town recently completed [Asset Management Plans](#) for its' capital assets. The reports identified that the majority of our assets are in fair/good condition or better. However, the reports also identified funding gaps in terms of what funding is available for the renewal of existing assets versus appropriate funding levels that are required.

Now that these gaps have been acknowledged, it is in our best interest to begin making investments in our future by setting aside increased dedicated funding for our asset renewal and replacement reserves. By beginning to address these gaps, we would be making progress on closing the infrastructure gap and enhancing our long-term financial sustainability. This will be a long journey but the time to start is while our assets are in relatively good condition.

Further analysis is required to identify appropriate targeted annual contribution levels for each reserve.

Special Purpose Reserves

These may be established for varying purposes such as setting aside funding for time-limited projects, acting as a funding source for irregular projects and studies, or supporting the priorities of Council. Required funding or target balances may vary depending on the fund's purpose.

Reserve Funds

These are established to account for funds that have been segregated for a specific purpose as required by statute. These funds must be used solely for the purposes prescribed for them by statute.

Strategic Priorities

Priority: Collective Prosperity

Direction: Focus on affordability and financial sustainability for the municipality

Action: Continue to enhance financial transparency

Financial Impact

There are no specific financial implications related to this report.

Conclusion

Staff recommend that the updated Reserve & Reserve Fund Policy attached as Appendix A be approved. Changes to the policy relate primarily to the establishment of target balances and targeted annual contribution levels. Changes have been highlighted in red font for ease of reference.

Included as Appendix B is the Reserve Strategy and Targets which outlines the reserve name, purpose, type, funding method, and target level – whether that’s a contribution level or balance level. As mentioned, targeted contribution levels for asset renewal and replacement reserves are still to be determined.

Respectfully prepared and submitted by,



Tony Del Monaco
Director of Finance/Treasurer

Respectfully approved by,



Sarah Kim
Chief Administrative Officer

Attachments

- **Appendix A** – 2024 Reserve & Reserve Fund Policy
- **Appendix B** – Reserve Strategy & Targets