

## Report to Budget Committee

**To:** Chair and Members  
Budget Committee

**From:** Anna Lisa Barbon, CPA, CGA  
Deputy City Manager, Finance Supports

**Subject:** Surplus/Deficit Policy Update

**Date:** March 19, 2025

## Recommendation

That, on the recommendation of the Deputy City Manager, Finance Supports, the attached proposed by-law (Appendix “A”) **BE INTRODUCED** at the Municipal Council meeting on April 1, 2025, to amend By-law No. CPOL.-46-242 being “Surplus/Deficit Policy” by deleting and replacing Schedule “A” to the bylaw.

## Linkage to the Corporate Strategic Plan

Council’s 2023-2027 Strategic Plan for the City of London identifies ‘Review, update and implement the City’s strategic financial principles, policies and practices’ as a strategy under the ‘Well-Run City’ strategic area of focus. The implementation, review and update of the Surplus/Deficit Policy signifies that the City is looking beyond a short-term focus when planning its finances. The Surplus/Deficit Policy provides consistent direction for Municipal Council and Civic Administration regarding the annual treatment of surplus and deficit in a manner that is consistent with long-term financial sustainability.

## Analysis

### 1.0 Background Information

#### 1.1 Previous Reports Related to this Matter

Strategic Priorities and Policy Committee, meeting on July 18, 2024, Agenda Item 4.2, 1<sup>st</sup> Report of the Strategic Opportunities Review Working Group (SORWG):  
<https://pub-london.escribemeetings.com/Meeting.aspx?Id=45a45766-b39a-4d67-8b7e-84ab78e2f191&Agenda=Merged&lang=English&Item=8&Tab=attachments>

#### 1.2 Surplus/Deficit Refresher and Policy History

##### Definition of a Surplus or Deficit

A surplus arises in the operating budget when there is an excess of revenues over expenditures. Year-end surpluses generally arise from two circumstances – higher than budgeted revenues (including one-time only revenues), and/or lower than budgeted expenditures.

A deficit arises in the operating budget when there is an excess of expenditures over revenues. Year-end deficits generally arise from two circumstances – lower than budgeted revenues, and/or higher than budgeted expenditures (including one-time only expenditures).

##### The Municipal Act, 2001 Treatment of Surplus/Deficit

The *Municipal Act, 2001* states that municipalities are to bring the prior year’s surplus forward into the next year as a revenue for the operating budget; conversely the *Municipal Act, 2001* also states that municipalities are to bring the prior year’s deficit forward into the next year as an expenditure for the operating budget. In other words,

the operating budget results (or actuals) of a fiscal year must be applied and eventually balanced. A surplus or deficit cannot be left unactioned and, in lieu of any alternative application of the surplus/deficit, at a minimum it must be applied or resolved in the subsequent year. Application/resolution into the subsequent year would be considered one-time revenues or expenditures in that year.

One-time revenues and one-time expenditures create fluctuations with respect to property taxes and water and wastewater and treatment rates on a year over year basis. Once a surplus has been carried forward into the subsequent year, that revenue (all other factors equal) would not be available the year following its application. To maintain a balanced budget, the following year would have to see the same surplus realized. Should that not materialize, additional revenues would need to be collected, or expenditures reduced to produce a balanced budget. See **Appendix “D”** for a simple theoretical example to highlight the one-time application while keeping as many factors as consistent as possible for illustrative purposes.

Municipalities, like any organization, will generally experience some degree of surplus or deficit as it is very unlikely that actual results for the year will transpire exactly as budgeted. There is a need to maintain consistency from one budget year to the next to avoid significant budget fluctuations and associated potential tax/rate pressures. Utilization of a Surplus/Deficit Policy provides parameters to support the yearly balancing of the operating budget to mitigate future year impacts of carryover surplus or deficit by providing a means of applying or providing for a surplus or deficit respectively.

Stability and predictability in tax levy (and rate) requirements is foundational to a number of principles in the Council-approved Strategic Financial Framework, including:

- Fluctuations in tax levy requirements should be smoothed, where appropriate, to ensure stability of property tax increases.
- Strategic use of one-time funding sources to smooth property tax increases should be removed, at minimum, by the last year of a Multi-Year Budget period.
- Tax levy requirements should be viewed on a long-term basis in addition to shorter term tax levy considerations.

#### History of The City of London’s Surplus/Deficit Policy

The City of London’s Surplus/Deficit Policy was implemented in 2015. Prior to this, a principles based approach was adopted by Council. The Policy implemented in 2015 contains many of the same elements the current Policy has today. This includes provisions for contributions to the Operating Budget Contingency Reserve and Unfunded Liability Reserve Fund in a year of surplus at the discretion of the City Treasurer, with remaining surplus allocated 50%, 25% and 25% to debt reduction, the Community Investment Reserve Fund and the Capital Infrastructure Gap Reserve Fund respectively. Deficits are to be funded from the Operating Budget Contingency Reserve. The Policy was updated in 2018 to include the Water and Wastewater Budgets and links to the Reserve/Reserve Fund Policy targets. There have been other minor updates since 2018 that have been housekeeping in nature, however the key allocations have remained the same. See **Appendix “B”** for the current Surplus/Deficit Policy.

The consistency in the City’s operating results, driven by the application of the Surplus/Deficit Policy, is also specifically mentioned by Moody’s in their credit opinion for the City as a contributor to the City’s Aaa credit rating, as per the following excerpts:

- “The credit profile of the City of London (Aaa stable) reflects the long track record of solid operating outcomes, which are built on the city's prudent management and long-term planning approach.”
- “Debt issuance is also reduced through the use of multiple policies overseeing the use of excess funds at year end: the city applies all year end debt service savings, 50% of unallocated assessment growth as well as 50% of any operating surplus that it generates towards financing needs that would have otherwise be funded from authorized debt issuance.”
- “Similar to other highly rated Ontario municipalities, the City of London displays strong governance and management practices, such as the application of multi-year budgets, which helps to promote stable operations. London’s history of

posting positive operating results, application of strict controls on debt issuance, and conservative debt and investment policies which limit their exposure to market related risks and help ensure relatively smooth debt servicing costs all act as evidence of the city's strong management and governance.”

### **1.3 Strategic Opportunities Review Working Group (SORWG) Direction and Mayoral Direction**

At its meeting held on June 26, 2024 the SORWG resolved that Civic Administration BE DIRECTED to report back in the first quarter of 2025 with potential options for Council's consideration with respect to the Surplus/Deficit Policy.

Further to the direction from SORWG, on February 4, 2025, Mayor Morgan issued Mayoral Direction 2025-002. Among other matters, this Mayoral Direction indicated:

*“That, as the City of London reviews its Surplus/Deficit Policy, opportunities for additional debt reduction be prioritized and brought forward.”*

The City has undertaken a comprehensive review of the Surplus/Deficit Policy and considered a variety of different options and allocations. This report details the recommended changes to the Surplus/Deficit Policy in accordance with direction from the SORWG and to fulfill the Mayoral Direction.

### **1.4 Other Municipalities**

As part of the review of this policy, a review of other Ontario municipalities was conducted. A sample of nine comparators was utilized based on readily available information on their policies. The majority of the comparator municipalities that were researched allocate all or a portion of surplus to a stabilization reserve and/or a capital/infrastructure reserve fund. Many other municipalities utilized a similar structure in allocation amongst a few of their priorities utilizing a mechanical allocation framework – with percentage allocations the most common.

Regarding the treatment of deficits, interestingly, more than expected had no guidance on deficit treatment and were silent on this matter in their policies. For those municipalities that included a provision on deficits, the sample Ontario municipalities that were researched fund deficits through established contingency reserves (such as a tax rate stabilization reserve).

### **1.5 Policy Options**

The SORWG resolved that Civic Administration report back with potential options for the Surplus/Deficit Policy for Council's consideration. In doing research on other municipalities and considering potential options internally, it became evident that there exists a theoretical endless number of options. While there are common themes and priorities, a municipality could, in theory, design unique allocations based on its own priorities and financial principles while ensuring adherence to the *Municipal Act, 2001*.

When considering options, several elements are present. Examples of surplus allocation considerations, while not being exhaustive, include:

- Where to allocate the surplus considering multiple factors?
  - Compliance with the *Municipal Act, 2001*
  - Allocation based on need versus want
  - Consideration of future rate stabilization
  - Consideration of impact in short-term versus long-term
  - Immediate tax relief versus future tax pressure alleviation
  - Strategic priorities
  - Alignment with, and support of, maintaining the City's credit rating
  - The City of London has a variety of different Reserves and Reserve Funds that surplus could be allocated to.

- What is the methodology?
  - Allocations can be made based on percentages
  - Allocations can be made based on nominal dollar amounts
  - Allocations can be made based on a cascading list. For example, a surplus allocation can be made to a particular reserve/reserve fund until it reaches its target, with any excess going to the next reserve fund on the list.
- What is the split for the allocation?
  - For example, if a percentage allocation is used, there are a number of different permutations that can be utilized from 0% to 100%
- Unique considerations between the City's three budgets (property tax, water, wastewater & treatment)?

For these reasons, respectfully, it would be impractical to bring forward an exhaustive list of options that captures all possible combinations of available alternatives and designs for this policy.

With these considerations, Civic Administration has brought forward a recommended Policy. The recommended Policy is the result of a comprehensive review undertaken by Civic Administration and gives consideration to the history of the City's Surplus/Deficit Policy, the City's credit rating and potential impacts to future credit ratings, the Mayor's direction, practices of other municipalities, and applying a long-term financial view consistent with the intent of the Multi-Year Budget process. It is within the purview of Council to support the recommended Policy as drafted or provide alternative options or amendments to the Policy for consideration.

## 2.0 Discussion and Considerations

### 2.1 Recommended Policy Changes

The purpose of this report is to seek Municipal Council approval for amendments to the current Surplus/Deficit Policy. The recommended Surplus/Deficit Policy is attached as **Schedule A to Appendix "A"**. The current Surplus/Deficit Policy is attached as **Appendix "B"** for reference. **Appendix "C"** shows a summary comparison of the current policy allocations versus the recommended policy allocations for the property tax, water, and wastewater and treatment budgets.

The changes included in the recommended Policy and rationale are presented for each budget below.

#### **Property Tax Recommended Policy Changes**

##### **Contribution to Operating Budget Contingency Reserve (OBCR)**

###### Current Policy:

In a year of surplus, the City Treasurer is authorized to contribute an amount to the OBCR not to exceed the reserve target balance established through the Reserve and Reserve Fund Policy, subject to the contribution being confirmed by Council.

###### Recommended Policy:

The confirmation by Council provision has been removed.

###### Rationale:

Any surplus allocated to the OBCR by the City Treasurer will be reported to Council. Although not normally recommended by Civic Administration, Council has the ability to override surplus allocated to the OBCR "notwithstanding" Policy. Further, the remaining surplus allocations (50%, 25%, 25%) that are reported to Council can be overridden "notwithstanding" Policy, but do not have confirmation clauses. For consistency and clarity, it is recommended the OBCR confirmation provision be removed and that delegated authority be made clear.

## **Contribution to Unfunded Liability Reserve Fund**

### Current Policy:

In a year of surplus, the City Treasurer is authorized to contribute an amount to the Unfunded Liability Reserve Fund not to exceed the Reserve Fund target balance and operational savings realized from personnel and contingency budgets at year-end.

### Recommended Policy:

Remove this provision and its ranking within the policy and incorporate the contribution with a new provision to allocate 20% of remaining surplus to the Unfunded Liability Reserve Fund as part of the formulaic distributions.

### Rationale:

The Unfunded Liability Reserve Fund provides for future employee benefits payable, landfill closure and post-closure liabilities, and other liabilities for which there is no identified source of financing as reported in the annual consolidated financial statements. While the contribution to the Unfunded Liability Reserve Fund remains a priority, this amendment provides more clarity and consistency on the allocation to the Unfunded Liability Reserve Fund. It signals the importance of the Unfunded Liability Reserve Fund by ensuring a contribution is made in the year of surplus, rather than having the contribution as a discretionary item within the Policy.

Currently, there are no other funding sources for this Reserve Fund and the Reserve Fund remains well below its target balance (\$176M approx. balance vs. a minimum target balance of approx. \$266M as of the time of writing this report). Further, given non-personnel related items make up a larger percentage of the liability (in particular with the adoption of the Public Sector Accounting Board Asset Retirement Obligation standards effective for the City's December 31, 2023 year-end), contributing personnel savings exclusively to this Reserve Fund is not as strong of a link as it was when the Policy provision was originally implemented. Lastly, by incorporating this contribution within the formulaic allocation of surplus and removal of its priority ranking within the existing policy leads to greater prioritization of debt substitution (reducing future debt issuance).

## **Remaining Surplus Allocation**

### Current Policy:

- i. 50% to reduce future debt issuance
- ii. 25% to the Community Investment Reserve Fund
- iii. 25% to the Capital Infrastructure Gap Reserve Fund

### Recommended Policy:

- i. 60% to the Debt Substitution Reserve Fund
- ii. 20% to the Unfunded Liability Reserve Fund, not to exceed the reserve fund target balance established through the Reserve and Reserve Fund Policy
- iii. 20% to the Capital Infrastructure Gap Reserve Fund, not to exceed the reserve fund target balance established through the Reserve and Reserve Fund Policy

Should any amounts to be contributed under ii) and iii) be in excess of the respective reserve fund target, that excess amount shall be allocated under i).

### Rationale: Increased Allocation to Debt Reduction:

Increased allocations in a year of surplus to debt reduction from 50% to 60% for the Property Tax Budget is prudent given the Mayoral direction to bring forward opportunities for additional debt reduction and the additional future debt forecasted within the City of London's adopted 2024-2027 Multi-Year-Budget (MYB). Within the MYB, approximately \$500M of additional debt financing was approved over the 2024-2033 timeframe, noting that the City's long-term issued and outstanding debt at the end of 2023 was approximately \$200 million. The recommended Policy provides for an increased allocation to reduce future debt, which in turn reduces future property tax rate

increases to service the debt. Note – The creation of the debt substitution reserve funds in the fall of 2023 ([September 11, 2023 - Corporate Services Committee – Agenda Item 2.1](#)) for each of the tax, water, and wastewater budgets was designed to better facilitate the execution of the City’s debt substitution practices that are endorsed via the Council approved Debt Management Policy. The language in the Policy has been updated for the creation of these reserve funds.

To further facilitate debt reduction, additional language was added on reserve fund targets for the Unfunded Liability Reserve Fund and Capital Infrastructure Gap Reserve Fund. If the applicable reserve fund to receive a surplus allocation is at target, the excess will be prioritized to debt reduction via the Debt Substitution Reserve Fund.

**Rationale: Removing the Community Investment Reserve Fund:**

As per the Council approved by-law, the Community Investment Reserve Fund is utilized to fund one-time projects/initiatives or projects/initiatives that require a temporary source of financing not to exceed four years. It is not to be utilized for tax rate mitigation or permanent ongoing expenditures.

With the exception of the Community Investment Reserve Fund, the surplus allocations in the City’s current Policy are utilized to fund contingencies or long-term liabilities/obligations, such as future long-term debt, long-term liabilities and address infrastructure funding gaps. The allocations may indirectly offer future tax levy relief through reducing future liabilities or funding gaps. In contrast, the Community Investment Reserve Fund is designed to be a temporary funding source for projects/initiatives. Further, in looking at research of other municipalities, the Community Investment Reserve Fund contribution was an outlier in comparison to other Ontario municipalities. Applying a long-term sustainable and accountable financial view, it is recommended that the Community Investment Reserve Fund allocation be removed from the Surplus/Deficit Policy.

When reviewing the Policy taking into consideration the Mayoral direction, future financial realities anticipated based on adoption of the 2024-2027 Multi-Year Budget and in conjunction with the City’s Strategic Financial Framework, this contribution was ranked of least importance and at times incongruent with certain principles.

With the removal of this contribution, there will no longer be a funding source for the Community Investment Reserve Fund. An annual contribution could be brought forward by Council if there was a desire to provide a permanent, stable funding source for this reserve fund as part of an Annual Budget Update or through the next Multi-Year Budget. This would further help alleviate contingent funding commitments (i.e. based on the balance of the fund) from the reserve fund with a more stable contribution.

**Rationale: Continuing to Allocate Surplus to the Capital Infrastructure Gap Reserve Fund:**

A surplus allocation to the Capital Infrastructure Gap remains prudent given the infrastructure funding gaps identified in the 2023 Corporate Asset Management Plan – a “maintain current level of service” 10-year infrastructure gap of \$879 million for Tax Supported assets. The recently adopted MYB also did not include business case #P-55 – Additional Funding to Address Infrastructure Gap. Applying year-end surplus to the Capital Infrastructure Gap Reserve Fund becomes even more prudent when considering that permanent additional investments were not approved through the MYB process and that the gap will continue to grow in the future without additional investment.

**Other Housekeeping Change**

Clarifying language has been added clarifying that Surplus/Deficit figures will be reported prior to application of the policy.

## **Wastewater & Treatment Budget and Water Budget – Recommended Policy Changes**

### **Wastewater & Treatment Policy Changes**

#### **Current Policy:**

- i. 50% to reduce future debt issuance
- ii. 50% to the Sewage Works Reserve Fund

#### **Recommended Policy:**

- i. 60% to the Wastewater and Treatment Debt Substitution Reserve Fund
- ii. 40% to the Sewage Works Reserve Fund, not to exceed the reserve fund target balance established through the Reserve and Reserve Fund Policy

Should an amount to be contributed under ii) be in excess of the respective reserve fund target, that excess amount shall be allocated under i).

### **Water Policy Changes**

#### **Current Policy:**

- iii. 50% to reduce future debt issuance
- iv. 50% to the Waterworks Reserve Fund

#### **Recommended Policy:**

- iii. 60% to the Water Debt Substitution Reserve Fund
- iv. 40% to the Waterworks Fund, not to exceed the reserve fund target balance established through the Reserve and Reserve Fund Policy

Should an amount to be contributed under ii) be in excess of the respective reserve fund target, that excess amount shall be allocated under i).

#### **Rationale of Wastewater & Treatment and Water Policy Changes**

In a year of surplus, there has been an increased allocation to debt reduction from 50% to 60%. To further facilitate debt reduction, additional language was added on reserve fund targets for the Sewage Works Reserve Fund and Waterworks Reserve Fund. If the applicable reserve fund to receive a surplus allocation is at target, the excess will be prioritized to debt reduction via the applicable Debt Substitution Reserve Fund.

### **Other Housekeeping Change**

Clarifying language has been added clarifying that Surplus/Deficit figures will be reported prior to application of the policy.

## **Conclusion**

The Surplus/Deficit Policy provides direction for the annual treatment of surplus and deficit in a manner that is consistent with long-term financial sustainability and fulfills the requirement to apply/resolve a surplus or deficit, respectively, as required in the Municipal Act. The City has undertaken a comprehensive review of the Surplus/Deficit Policy and considered a variety of different options and allocations. This report details the recommended changes to the Surplus/Deficit Policy while incorporating the Mayoral Direction and direction from the SORWG.

**Prepared by:** Rick Lamon, CPA, Senior Financial Business Administrator and Martin Galczynski, CPA, CA, CIM, Manager, Financial Planning and Policy

**Submitted by:** Kyle Murray, CPA, CA, Director, Financial Planning and Business Support

**Recommended by:** Anna Lisa Barbon, CPA, CGA, Deputy City Manager, Finance Supports



## Appendix “A”

Bill No.  
2025

By-law No. CPOL.-

A By-law to amend By-law No. CPOL.-46-242  
being Surplus/Deficit Policy by deleting and  
replacing Schedule “A”

WHEREAS section 5(3) of the *Municipal Act, 2001*, S.O. 2001, C.25, as amended, provides that a municipal power shall be exercised by by-law;

AND WHEREAS section 9 of the *Municipal Act, 2001*, S.O. 2001, C.25, as amended, provides a municipality with the capacity, rights, powers and privileges of a natural person for the purpose of exercising its authority;

AND WHEREAS the Municipal Council of The Corporation of the City of London wishes to amend By-law No. CPOL.-46-242, as amended, being A bylaw to revoke and repeal Council policy related to Surplus/Deficit Policy and replace it with a new Council policy entitled Surplus/Deficit policy by deleting and replacing Schedule “A”

NOW THEREFORE the Municipal Council of The Corporation of the City of London enacts as follows:

1. By-law No. CPOL.-46-242, as amended, being Surplus/Deficit Policy and is hereby amended by deleting Schedule “A” and replacing it with the attached new Schedule “A”.
2. This by-law shall come into force and effect on the date it is passed subject to the provisions of PART VI.1 of the *Municipal Act, 2001*.

PASSED in Open Council on April 1, 2025 subject to the provisions of Part VI.1 of the *Municipal Act, 2001*.

Josh Morgan  
Mayor

Michael Schulthess  
City Clerk

First Reading – April 1, 2025  
Second Reading – April 1, 2025  
Third Reading – April 1, 2025

## Schedule “A”

### Surplus/Deficit Policy

**Policy Name:** Surplus/Deficit Policy

**Legislative History:** Enacted June 13, 2017 (By-law No. CPOL.-46-242); Amended October 16, 2018 (By-law CPOL.-46(a)-500); Amended August 10, 2021 (By-law No. CPOL.-46(b)-240); Amended July 25, 2023 (By-law No. CPOL.-46(c)-228, Amended April 1, 2025 (By-law No. CPOL.-46(\_\_\_\_\_))

**Last Review Date:** April 1, 2025

**Service Area Lead:** Director, Financial Planning & Business Support

#### 1. Policy Statement

The purpose of this policy is to establish a priority framework for the allocation of any operating surpluses and funding for any operating deficits.

#### 2. Definitions

- 2.1 **Authorized Debt:** Council approved debt financing as a source of funding for capital projects.
- 2.2 **City Treasurer:** The individual appointed by the municipality as treasurer.
- 2.3 **Deficit:** In the operating budget, when there is an excess of expenditures over revenues.
- 2.4 **Multi-Year Budget:** Adoption of a four year operating and capital budget.
- 2.5 **Operating Budget:** A budget that funds day to day operations. Some of the expenses could include personnel, utilities, and reserve fund contributions.
- 2.6 **Property Tax Supported Budget:** A budget that includes property taxes as a primary source of revenue used to fund City programs and services.
- 2.7 **Reserve:** An appropriation from net revenue and/or cost savings 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. Municipal Councils may set up reserves for any purpose for which they have the authority to spend money.
- 2.8 **Reserve Fund:** Funds that have been set aside either by a by-law of the municipality or by a requirement of senior government statute or agreement to meet a future event. Municipal Councils may set up reserve funds for any purpose for which they have the authority to spend money.
- 2.9 **Reserve Fund Policy:** A policy governing the management and administration of reserve and reserve funds, establishing guiding principles, primary objectives, key management and administrative responsibilities, and standards of care for reserves and reserve funds managed by the City.
- 2.10 **Surplus:** In the operating budget, when there is an excess of revenues over expenditures.
- 2.11 **Wastewater & Treatment Rate Supported Budget:** A budget to fund services exclusively related to the collection and treatment of wastewater and stormwater through rates charged to users of the system.
- 2.12 **Water Rate Supported Budget:** A budget to fund services exclusively related to the distribution of potable water through rates charged to users of the system.

### **3. Applicability**

This policy applies to the annual operating budgets for the Property Tax Supported Budget, Water Rate Supported Budget, and Wastewater & Treatment Rate Supported Budget, unless otherwise stated.

### **4. The Policy**

#### **4.1. Principles**

4.1.1. All surpluses and deficits be treated as one-time in nature.

4.1.2. The year-end operating surplus or deficit for the Property Tax Supported Budget, Water Rate Supported Budget, and Wastewater & Treatment Rate Supported Budget will only be allocated (surplus) or funded (deficit) within the operations and reserves and reserve funds of each respective Budget. Any year-end surplus will be temporarily contributed to the respective Budget Contingency Reserve to balance year-end operations, prior to allocations outlined in this Policy being completed.

#### **Property Tax Supported Budget – In a Year of Surplus**

- a) Surplus shall be reported to Municipal Council in the Operating Budget Year-end Monitoring Report prior to the allocations outlined below.
- b) The City Treasurer, or designate, is authorized to retain all or a portion of the year-end surplus in the Operating Budget Contingency Reserve (OBCR), not to exceed the reserve target balance established through the Reserve and Reserve Fund Policy.
- c) The remaining surplus shall be allocated in accordance with the following proportions:
  - i) 60% shall be contributed to the Debt Substitution Reserve Fund.
  - ii) 20% shall be contributed to the Unfunded Liability Reserve Fund, not to exceed the reserve fund target balance established through the Reserve and Reserve Fund Policy.
  - iii) 20% shall be contributed to the Capital Infrastructure Gap Reserve Fund, not to exceed the reserve fund target balance established through the Reserve and Reserve Fund Policy.

Should any amounts to be contributed under c) ii) and iii) be in excess of the respective reserve fund target, that excess amount shall be allocated under c) i).

#### **Property Tax Supported Budget – In a Year of Deficit**

- d) The City Treasurer, or designate, is authorized to drawdown from the OBCR to balance year-end operations.

#### **Wastewater & Treatment Rate Supported Budget – In a Year of Surplus**

- e) Surplus shall be reported to Municipal Council in the Operating Budget Year-end Monitoring Report prior to the allocations outlined below.
- f) The City Treasurer, or designate, is authorized to retain all or a portion of the year-end surplus in the Wastewater Budget Contingency Reserve (WWBCR), not to exceed the reserve target balance established through the Reserve and Reserve Fund Policy.
- g) The remaining surplus shall be allocated in accordance with the following proportions:

- i) 60% shall be contributed to the Wastewater and Treatment Debt Substitution Reserve Fund.
- ii) 40% shall be contributed to the Sewage Works Reserve Fund, not to exceed the reserve fund target balance established through the Reserve and Reserve Fund Policy.

Should an amount to be contributed under g) ii) be in excess of the respective reserve fund target, that excess amount shall be allocated under g) i).

**Wastewater & Treatment Rate Supported Budget – In a Year of Deficit**

- h) The City Treasurer, or designate, is authorized to drawdown from the WWBCR to balance year-end operations.

**Water Rate Supported Budget – In a Year of Surplus**

- i) Surplus shall be reported to Municipal Council in the Operating Budget Year-end Monitoring Report prior to the allocations outlined below.
- j) The City Treasurer, or designate, is authorized to retain all or a portion of the year-end surplus in the Water Budget Contingency Reserve (WBCR), not to exceed the reserve target balance established through the Reserve and Reserve Fund Policy.
- k) The remaining surplus shall be allocated in accordance with the following proportions:
  - i) 60% shall be contributed to the Water Debt Substitution Reserve Fund.
  - ii) 40% shall be contributed to the Waterworks Reserve Fund not to exceed the reserve fund target balance established through the Reserve and Reserve Fund Policy.

Should an amount to be contributed under k) ii) be in excess of the respective reserve fund target, that excess amount shall be allocated under k) i).

**Water Rate Supported Budget – In a Year of Deficit**

- l) The City Treasurer, or designate, is authorized to drawdown from the WBCR to balance year-end operations.

**4.2 Reporting**

The City Treasurer, or designate, shall provide the following reports related to year-end projected or actual surplus or deficit positions:

- i) Operating Budget Mid-Year Monitoring Report (January 1<sup>st</sup> to June 30<sup>th</sup>)
- ii) Operating Budget Year-End Monitoring Report (January 1<sup>st</sup> to December 31<sup>th</sup>)

## Appendix “B” – Current Surplus/Deficit Policy

### Surplus/Deficit Policy

**Policy Name:** Surplus/Deficit Policy

**Legislative History:** Enacted June 13, 2017 (By-law No. CPOL.-46-242); Amended October 16, 2018 (By-law CPOL.-46(a)-500); Amended August 10, 2021 (By-law No. CPOL.-46(b)-240); Amended July 25, 2023 (By-law No. CPOL.-46(c)-228

**Last Review Date:** July 25, 2023

**Service Area Lead:** Director, Financial Planning & Business Support

#### 1. Policy Statement

The purpose of this policy is to establish a priority framework for the allocation of any operating surpluses and funding for any operating deficits.

#### 2. Definitions

**2.13 Authorized Debt:** Council approved debt financing as a source of funding for capital projects.

**2.14 City Treasurer:** The individual appointed by the municipality as treasurer.

**2.15 Deficit:** In the operating budget, when there is an excess of expenditures over revenues.

**2.16 Multi-Year Budget:** Approval of a four year operating and capital budget.

**2.17 Operating Budget:** A budget that funds day to day operations. Some of the expenses could include personnel, utilities, and reserve fund contributions.

**2.18 Property Tax Supported Budget:** A budget that includes property taxes as a primary source of revenue used to fund City programs and services.

**2.19 Reserve:** An appropriation from net revenue and/or cost savings 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. Municipal Councils may set up reserves for any purpose for which they have the authority to spend money.

**2.20 Reserve Fund:** Funds that have been set aside either by a by-law of the municipality or by a requirement of senior government statute or agreement to meet a future event. Municipal Councils may set up reserve funds for any purpose for which they have the authority to spend money.

**2.21 Reserve Fund Policy:** A policy governing the management and administration of reserve and reserve funds, establishing guiding principles, primary objectives, key management and administrative responsibilities, and standards of care for reserves and reserve funds managed by the City.

**2.22 Surplus:** In the operating budget, when there is an excess of revenues over expenditures.

**2.23 Wastewater & Treatment Rate Supported Budget:** A budget to fund services exclusively related to the collection and treatment of wastewater and stormwater through rates charged to users of the system.

**2.24 Water Rate Supported Budget:** A budget to fund services exclusively related to the distribution of potable water through rates charged to users of the system.

### **3. Applicability**

This policy applies to the annual operating budgets for the Property Tax Supported Budget, Water Rate Supported Budget, and Wastewater & Treatment Rate Supported Budget, unless otherwise stated.

### **4. The Policy**

#### **4.1. Principles**

**4.1.1.** All surpluses and deficits be treated as one-time in nature.

**4.1.2.** The year-end operating surplus or deficit for the Property Tax Supported Budget, Water Rate Supported Budget, and Wastewater & Treatment Rate Supported Budget will only be allocated (surplus) or funded (deficit) within the operations and reserves and reserve funds of each respective Budget.

#### Property Tax Supported Budget – In a Year of Surplus

- a) The City Treasurer, or designate, is authorized to contribute an amount to the Operating Budget Contingency Reserve (OBCR) not to exceed the reserve target balance established through the Reserve and Reserve Fund Policy, subject to the contribution to the OBCR being confirmed by the Municipal Council.
- b) The City Treasurer, or designate, is authorized to contribute an amount to the Unfunded Liability Reserve Fund not to exceed:
  - i) The Reserve Fund target balance established through the Reserve and Reserve Fund Policy; and
  - ii) Operational savings realized from personnel and contingency budgets at year-end.
- c) Remaining surplus to be reported to Municipal Council in the Operating Budget Year-End Monitoring Report with the surplus contributed to the OBCR to balance year-end operations. The remaining surplus allocations shall be drawn down from the OBCR and allocated in accordance with the following proportions:
  - i) 50% of any operating surplus shall be applied to reduce future debt issuance, it being noted that debt reduction will reduce future years' debt servicing costs.
  - ii) 25% of any operating surplus shall be contributed to the Community Investment Reserve Fund to be allocated at the discretion of Municipal Council.
  - iii) 25% of any operating surplus shall be contributed to the Capital Infrastructure Gap Reserve Fund (or other reserve fund to mitigate infrastructure needs at the discretion of the City Treasurer) to address future infrastructure needs.

#### Property Tax Supported Budget – In a Year of Deficit

- d) The City Treasurer, or designate is authorized to drawdown from the OBCR to balance year-end operations.

#### Wastewater & Treatment Rate Supported Budget – In a Year of Surplus

- h) The City Treasurer, or designate is authorized to contribute an amount to the Wastewater Budget Contingency Reserve not to exceed the reserve target balance established through the Reserve and Reserve Fund Policy, subject to the contribution to the Wastewater Budget Contingency Reserve being confirmed by the Municipal Council.
- f) Remaining surplus to be reported in the Operating Budget Year-End Monitoring Report with the surplus contributed to the Wastewater Budget Contingency Reserve to balance year-end operations. The remaining surplus allocations shall be drawn down from the Wastewater Budget Contingency Reserve and allocated in accordance with the following proportions:
  - i) 50% of any operating surplus shall be applied to reduce Wastewater & Treatment future debt issuance, it being noted that debt reduction will reduce future years' debt servicing costs.
  - ii) 50% of any operating surplus shall be contributed to the Sewage Works Reserve Fund to address future infrastructure needs.

#### Wastewater & Treatment Rate Supported Budget – In a Year of Deficit

- g) The City Treasurer, or designate is authorized to drawdown from the Wastewater Budget Contingency Reserve to balance year-end operations.

#### Water Rate Supported Budget – In a Year of Surplus

- h) The City Treasurer, or designate is authorized to contribute an amount to the Water Budget Contingency Reserve not to exceed the reserve target balance established through the Reserve and Reserve Fund Policy, subject to the contribution to the Water Budget Contingency Reserve being confirmed by the Municipal Council.
- i) Remaining surplus to be reported in the Operating Budget Year-End Monitoring Report with the surplus contributed to the Water Budget Contingency Reserve to balance year-end operations. The remaining surplus allocations shall be drawn down from the Water Budget Contingency Reserve and allocated in accordance with the following proportions:
  - i) 50% of any operating surplus shall be applied to reduce Water future debt issuance, it being noted that debt reduction will reduce future years' debt servicing costs.
  - ii) 50% of any operating surplus shall be contributed to the Waterworks Reserve Fund to address future infrastructure needs.

#### Water Rate Supported Budget – In a Year of Deficit

- j) The City Treasurer, or designate is authorized to drawdown from the Water Budget Contingency Reserve to balance year-end operations.

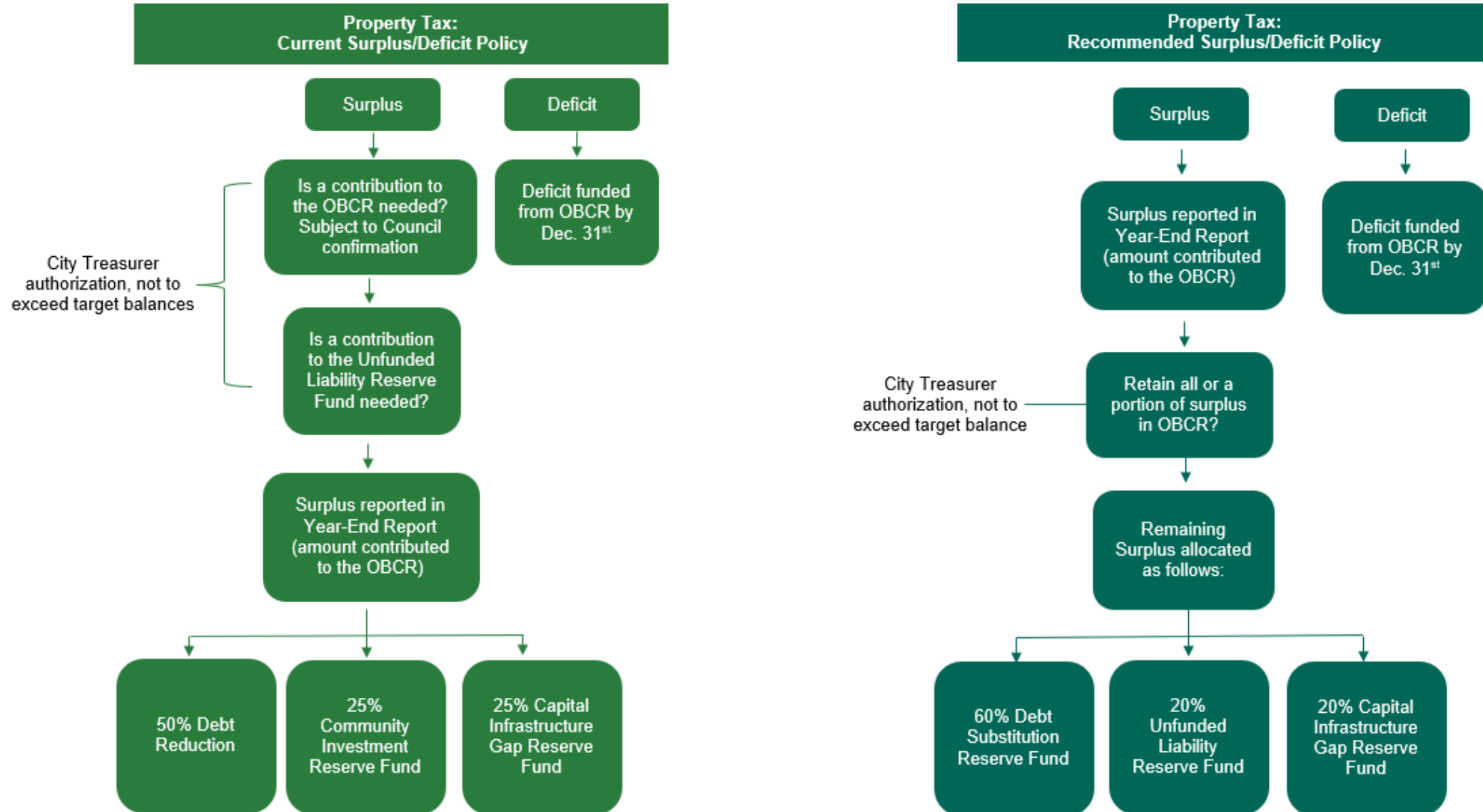
## 4.2 Reporting

The City Treasurer, or designate shall provide the following reports related to year-end projected or actual surplus or deficit positions:

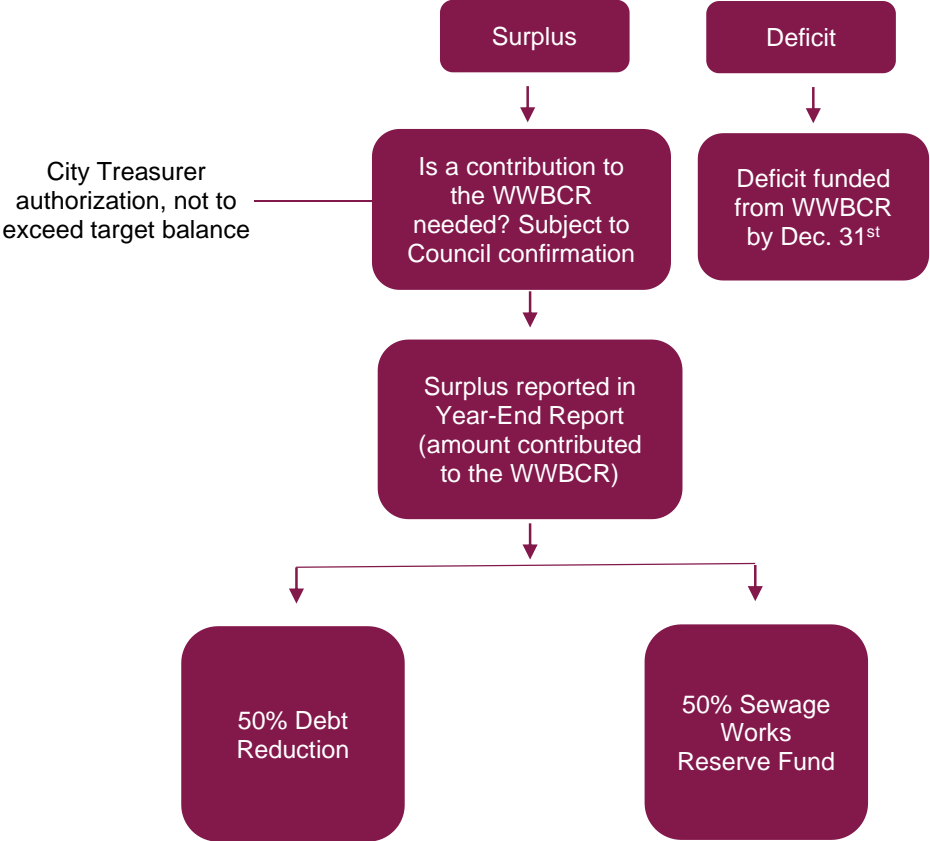
- i) Operating Budget Mid-Year Monitoring Report (January 1<sup>st</sup> to June 30<sup>th</sup>)
- ii) Operating Budget Year-End Monitoring Report (January 1<sup>st</sup> to December 31<sup>th</sup>)



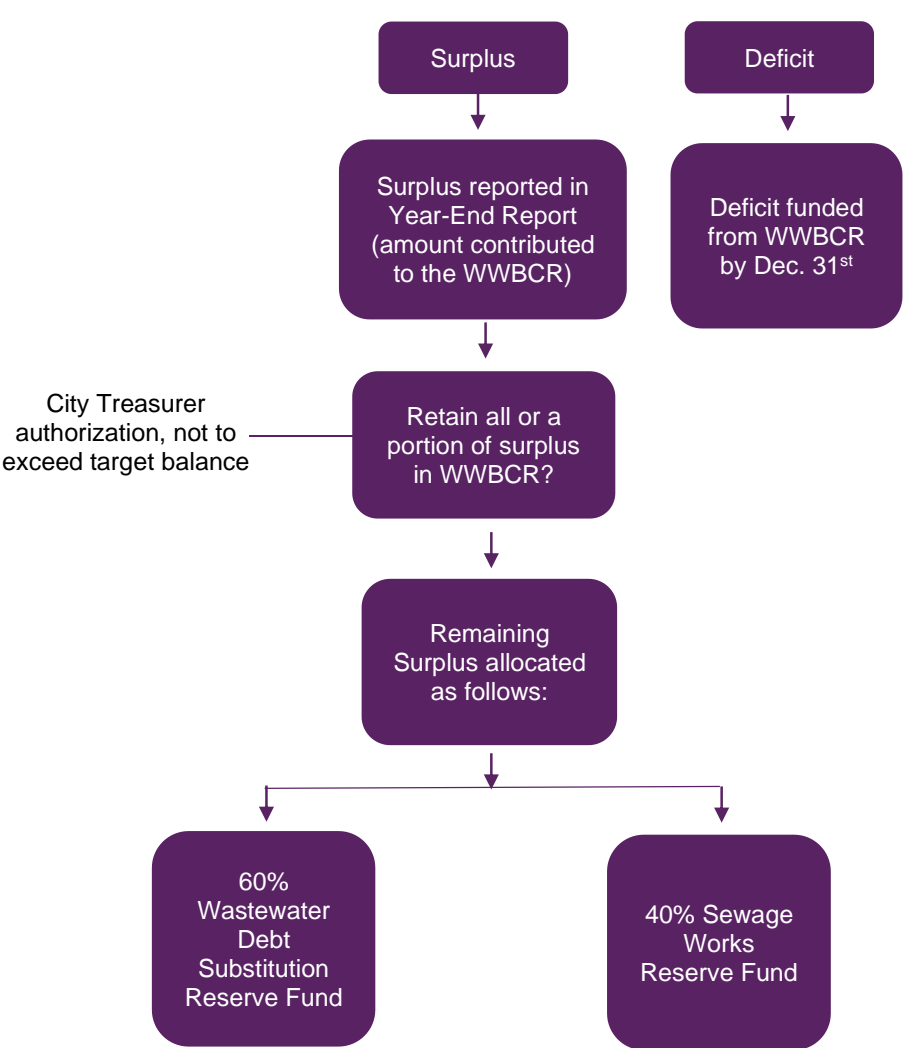
### Appendix "C" – Policy Comparison

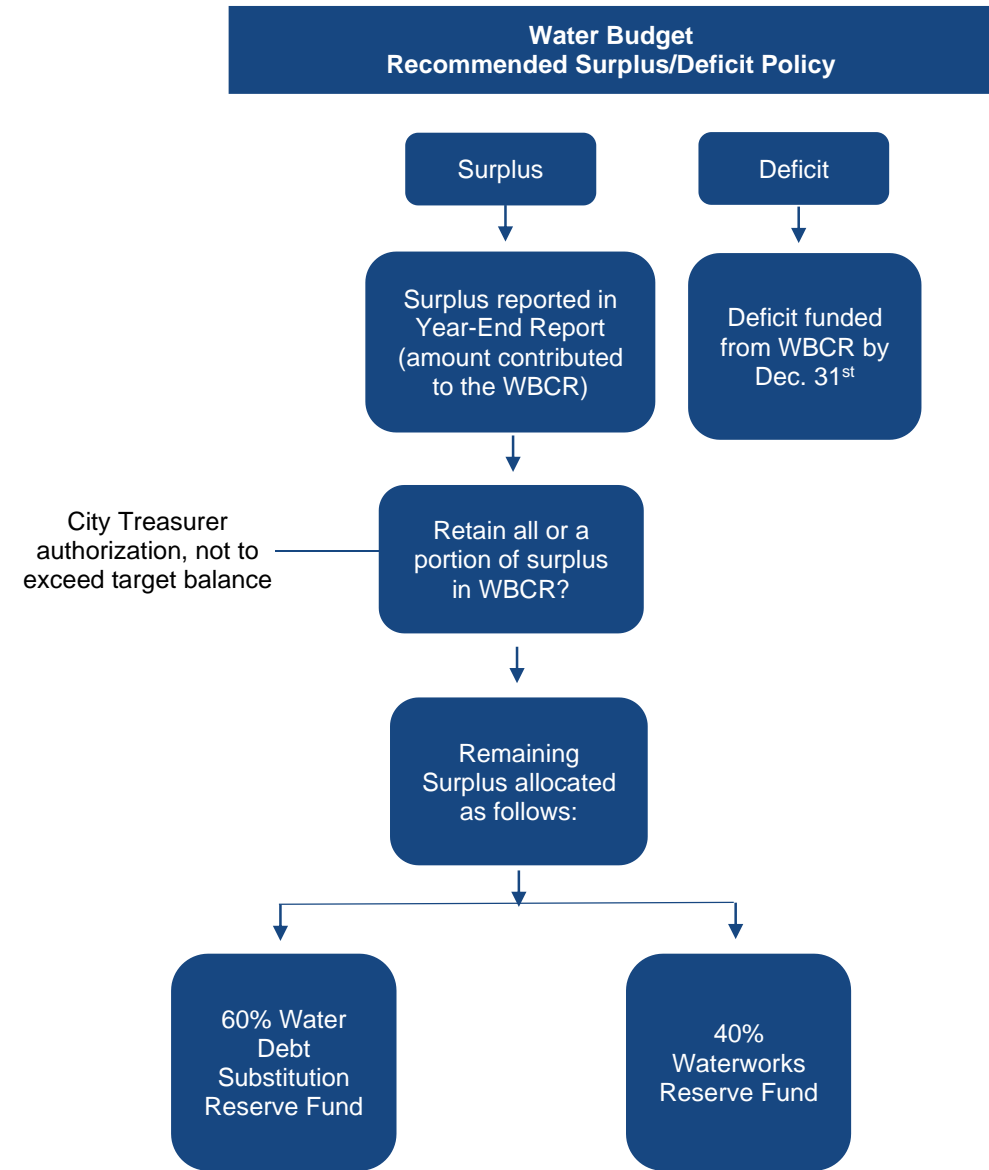
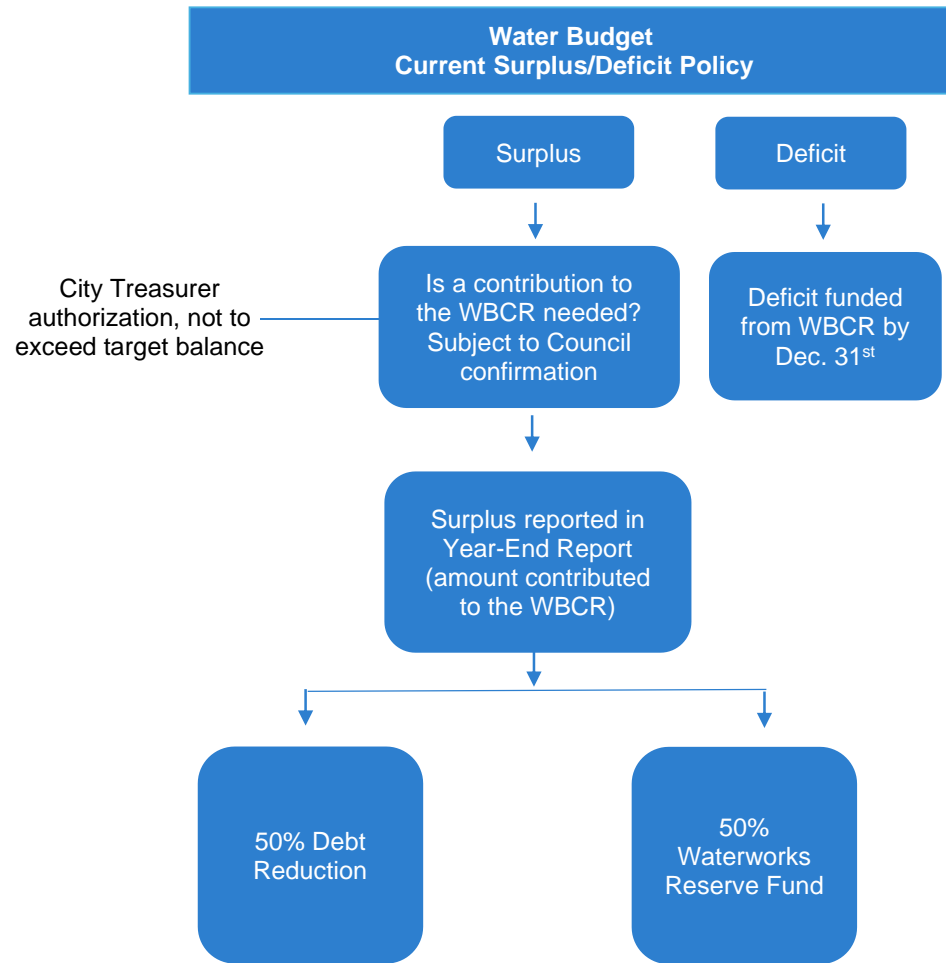


**Wastewater & Treatment Budget  
Current Surplus/Deficit Policy**



**Wastewater & Treatment Budget  
Recommended Surplus/Deficit Policy**





**Appendix “D” – Illustrative Surplus Scenario in Subsequent Year Application**

<b>Operating Budget</b>	<b>Year 1 Budget</b>	<b>Year 1 Actuals</b>	<b>Year 2 Budget</b>	<b>Year 3 Budget</b>
Revenue	\$10M	\$12M	\$8M	\$8M
Prior year surplus	N/A	N/A	\$2M	\$0M
Expenditures	-\$10M	-\$10M	-\$10M	-\$10M
Surplus/(deficit)	\$0	\$2M	\$0	-\$2M

In year three, either \$2M of revenues must be raised or \$2M of expenditures must be reduced to balance the budget.

Note: Appendix “D” is a simplified representation of a budget scenario for illustrative purposes only.