

Bill No. 433
2018

By-law No. CPOL.-____-____

A by-law to adopt a new Council Policy entitled Reserve and Reserve Fund Policy.

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 adopt a new Council policy entitled Reserve and Reserve Fund Policy;

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

1. The policy entitled "Reserve and Reserve Fund Policy", attached hereto as Schedule "A", is hereby adopted.
2. This by-law shall come into force and effect on the date it is passed.

PASSED in Open Council on July 24, 2018.

Matt Brown
Mayor

Catharine Saunders
City Clerk

SCHEDULE "A"

Policy Name: Reserve and Reserve Fund Policy

Legislative History:

Last Review Date: July 17, 2018

Service Area Lead: Managing Director, Corporate Services and City Treasurer, Chief Financial Officer

1. Policy Statement

A Policy governing the management and administration of reserves and reserve funds.

The purpose of the Policy is to establish guiding principles, primary objectives, key management and administrative responsibilities, and standards of care for reserves and reserve funds managed by the City.

2. Definitions

- 2.1. **Budget:** An estimated financial plan of revenue and expenditure for a set period of time.
- 2.2. **Capital Asset Renewal & Replacement:** A category of reserve funds established to provide funding for the repair and maintenance of existing City assets to ensure city-owned assets do not deteriorate over time.
- 2.3. **Capital Asset Growth:** A category of reserve funds established to provide funding to new capital initiatives while allowing the City to stabilize the cost of purchasing major capital assets by spreading the cost over multiple years.
- 2.4. **City:** The Corporation of the City of London.
- 2.5. **City Treasurer:** The individual appointed by the municipality as treasurer.
- 2.6. **Contingencies/Stabilization & Risk Management:** A category of reserves and reserve funds designed to fund future obligations which are based on calculated estimates and to mitigate unforeseen events or one-time unanticipated revenue losses and expenses.
- 2.7. **Debt:** Any obligation for the payment of money. For Ontario municipalities, debt would normally consist of debentures as well as either notes or cash from financial institutions, but could also include loans from discretionary reserves and reserve funds.
- 2.8. **Development Charges Background Study:** The background study undertaken by the City for its current Development Charges By-law.
- 2.9. **Discretionary Reserves and Reserve Funds:** A reserve or reserve fund created by Council to set aside revenue to finance a future expenditure for which Council has the authority to spend money.
- 2.10. **GFOA:** Refers to the Government Finance Officers Association of the United States and Canada, a professional association of state, provincial and local finance officers dedicated to the sound management of financial resources.
- 2.11. **Intergenerational Equity:** In economic, psychological, and sociological contexts, is the concept or idea of fairness or justice between generations.
- 2.12. **Liquidity:** A measure of an asset's convertibility to cash.
- 2.13. **MFOA:** Refers to Municipal Finance Officers Association of Ontario, a professional association which promotes the interests of its members in carrying out their statutory and financial responsibilities by initiating studies and sponsoring seminars to review, discuss and develop positions on important policy and financial management issues.
- 2.14. **Obligatory Reserve Funds:** A reserve fund created when senior government statute or agreement requires that revenue received for special purposes be segregated from the general revenues of the municipality. Obligatory reserve

funds are to be used solely for the purpose prescribed for them by statute or agreement.

- 2.15. **PSAB:** Refers to the Public Sector Accounting Board, an independent board with the authority to set accounting standards for the public sector.
- 2.16. **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.
- 2.17. **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. As a result, reserve funds are either “discretionary” being those set up by Council, or “obligatory” being those set up by virtue of a requirement of senior government statute or agreement. Municipal councils may set up reserve funds for any purpose for which they have the authority to spend money.
- 2.18. **Revolving Reserves and Reserve Funds:** Reserves and reserve funds used to fund normal course operating requirements or cash flow deficiencies that do not require Council approval provided they conform with intent of originating resolution or by-law.
- 2.19. **Specific Projects & New Initiatives:** A category of reserves and reserve funds established for planned savings within the budget to fund projects or expenses either identified at the time the reserve or reserve fund is set-up or after, which allows the City to save for planned or unanticipated projects or expenses that may arise and do not have another funding source.

3. Applicability

This Policy applies to all reserves and reserve funds administered by the City, including those administered for any of the City’s Local Boards, Commissions, Agencies, or Corporations.

Furthermore, the Policy applies to all City employees who are responsible for the establishment, monitoring, administration and management of the City’s reserves and reserve funds.

4. The Policy

4.1. Principles & Objectives

The guiding principles for reserves and reserve funds shall be:

- a) **Budget and Strategic Financial Plan** - Reserves and reserve funds shall form an integral component of the City’s budget and strategic financial plan.
- b) **Liquidity** - Reserves and reserve funds shall be kept at an adequate level to ensure the City has sufficient cash flow to meet its financial obligations; including but not limited to:
 - i) Replace and rehabilitate capital infrastructure assets as required;
 - ii) Supply funds for new capital assets identified in the City’s long-term plans, or that arise from time-to-time;
 - iii) Fund long-term contingencies and potential liabilities; and
 - iv) Provide a buffer for significant unanticipated expenditures, or loss of revenues beyond the control of the City.
- c) **Intergenerational Equity** - Reserve and reserve fund balances shall be maintained to support the principle of intergenerational equity whereby the generation of citizens who benefit from an investment are also responsible for financing it to the greatest extent possible.
- d) **Credit Rating and Cost of Borrowing** - Reserve and reserve fund balances impact the City’s credit rating and associated cost of borrowing thus at a minimum, reserve and reserve fund balances shall be maintained at levels that support the maintenance of the City’s credit rating awarded by Bond Rating Agencies.

- e) **Reserve and Reserve Fund Types** - the type of reserves and reserve funds the City shall maintain are as follows:
- i) **Obligatory** - A *reserve fund* created when a senior government statute and/or agreement requires that revenue received for special purposes be segregated from the general revenues of the municipality. Obligatory reserve funds are to be used solely for the purpose prescribed for them by statute or agreement.
 - ii) **Discretionary** - A *reserve or reserve fund* created by Council to set aside revenue and/or cost savings to finance a future expenditure for which Council has the authority to spend money.

The primary objectives for reserves and reserve funds shall be in priority order:

- f) **Adherence to Statutory Requirements**
- i) It shall be the City's practice to establish and maintain segregated reserve funds that meet all statutory obligations.
 - ii) Reserves and reserve funds shall be managed in accordance with the *Municipal Act, 2001, as amended*, this includes:
 - Section 10 (2) authorizing single-tier municipalities to pass by-laws respecting accountability, transparency and financial management;
 - Section 290 (2) the budget shall set out the estimated revenues and expenditures of reserves and reserve funds contained within a municipalities budget;
 - Section 291 covering multi-year budget requirements of municipalities;
 - Section 417 (4) that money raised for a reserve fund shall be paid into a special account and shall be invested only in securities or classes of securities prescribed;
 - Section 418 (3) as allowed by the Corporation, shall combine money held in any fund (including General, Capital and Reserves and Reserve Funds) for investment purposes; and
 - Section 418 (4) that earnings from combined investments shall be credited to each segregated fund in proportion to the amount invested in it.
 - iii) Reserves shall be established by Council resolution which governs the purpose, funding sources, and drawdowns of the fund.
 - iv) Reserve funds shall be established by Council by-law which governs the purpose, funding sources, drawdowns, and investment of the fund.
- g) **Promotion of Financial Stability and Flexibility**
- i) It shall be the City's practice to maintain adequate reserves and reserve funds within the following categories to achieve long-term financial stability and flexibility (see definitions for detailed description of categories):
 - Obligatory,
 - Capital Asset Renewal and Replacement,
 - Capital Asset Growth,
 - Special Projects and New Initiatives, and
 - Contingencies/Stabilization and Risk Management.
 - ii) The City shall strive to maintain reserve and reserve fund levels in line with public service associations best practices (Municipal Finance Officers Association (MFOA), Government Finance Officers Association (GFOA), Public Sector Accounting Board (PSAB), etc.), bond rating agencies standards and other municipalities with comparable credit ratings.
- h) **Provision for Major Capital Expenditures**
- i) It shall be the City's goal to maintain adequate reserves and reserve funds to replace and rehabilitate major capital assets, as required, and to provide for new capital assets that have been identified in the long-term capital plan. To achieve this goal, the following budget practices will be applied where applicable:
 - Reserve funds for the full cost of replacement or rehabilitation of major assets will be funded from ongoing operations at a

rate which reflects the consumption of that asset by current ratepayers. Contributions to these funds will commence in the fiscal year that the asset is acquired or put into service and will be based on an estimate of the useful life of the asset.

- Obligatory reserve funds will be maintained for growth, parkland and gas tax related capital projects. The growth related obligatory reserve funds will be fully funded from developer contributions. Components of the growth related projects which benefit the existing ratepayers or for which a discount has been given, shall be funded from tax/rate funding sources in the year the project is built. Notwithstanding, debt may be issued for growth projects when required in accordance with the *Development Charges Act, 1997, as amended*, and other pertinent City policies.

i) Reduce Tax/Rate Supported Debt

- i) As per the principles of the Council approved Capital Budget and Financing Policy, the City shall use reserve and reserve fund balances as a source of financing for capital projects.
- ii) When appropriate, the City shall use reserve and reserve fund balances as a source of debt substitution for capital projects which were previously approved with debt financing.
- iii) If discretionary reserves and reserve funds are below established targets, all or a portion of the future debt servicing cost savings resulting from reserve and reserve fund balances applied towards debt substitution shall be considered for future contributions to discretionary reserves or reserve funds at the discretion of the City Treasurer, it being noted that such contributions are subject to Council approval through the City's budgetary process.

4.2. Reserve and Reserve Fund Management

a) Establishment and Modification of Reserves and Reserve Funds

- i) Reserves and reserve funds shall only be established or modified if they are supported by a financial plan identifying the funding needs, targets, contribution sources, projected drawdowns and investment of funds.
- ii) Target funding levels shall be established for every reserve and reserve fund. Methods for calculating reserve and reserve fund targets shall be determined on a case-by-case basis considering the following:
 - Purpose of fund,
 - Certainty of end needs,
 - Best practices/standards regarding the identification of need and target balance levels (MFOA, GFOA, PSAB, etc.), and
 - Economic factors.
- iii) Reserve and reserve fund balances and associated targets shall be reviewed periodically to ensure adequate reserve and reserve fund levels are maintained for a ten year period.

b) Investment of Reserves and Reserve Funds:

- i) Reserves and reserve funds shall be invested for a term that will not exceed its expected date of need;
- ii) Reserves and reserve funds shall be invested in accordance with the Council approved Investment Policy;
- iii) Interest earned on reserves shall be recognized as revenue in the operating budget;
- iv) Interest earned on reserve funds shall be recognized as revenue in each specific reserve fund according to its proportionate share of the investment portfolio.

c) Contributions To/Drawdowns From Reserves and Reserve Funds:

- i) Contributions to/drawdowns from reserves and reserve funds shall be made in accordance with applicable resolution, by-law and this Policy.
- ii) Contributions to/drawdowns from reserves and reserve funds shall be

approved by Council as part of the annual budget process, or specifically by resolution with the following exceptions:

- Direct contribution to reserves and reserve funds such as development charges revenue;
 - Transfers that are a direct result of Council approved by-laws or resolutions such as Surplus/Deficit Policy;
 - Transfer of funds between reserves and reserve funds based upon adequacy analysis or other related information, at the discretion of the City Treasurer, or designate; and
 - Use of “revolving” reserves and reserve funds for the purpose approved by Council such as Workplace Safety Insurance Board claims.
- iii) Council approved contributions to/drawdowns from reserves and reserve funds not realized shall be reported to Council as part of the budget monitoring reports, or budgetary process.
- iv) Contributions to/drawdowns from reserves and reserve funds shall take into account intergenerational equity between current and future tax/rate payers.

d) Lending/Temporary Borrowing of Reserves and Reserve Funds:

- i) Intra-fund lending between reserves and reserve funds shall be permitted to temporarily finance capital and/or operating cash flow deficiencies to avoid external borrowing costs provided that all loans/transfers bear the City’s internal rate of return and principal and interest are credited to the appropriate reserve or reserve fund source.
- ii) External loans shall be approved at the discretion of Council according to Section 107 of the *Municipal Act, 2001, as amended*, to any person, group, or body for any purpose considered to be in the best interest of the municipality. Prior to recommending such a loan to Council, staff shall consider the following:
- External loans shall only be made to public agencies/groups and shall benefit the public;
 - The term of external loans shall not exceed five years;
 - Appropriate security shall be provided to protect the interests of the City;
 - A financial profile of the borrower;
 - Are adequate reserves and reserve funds available for the term of the external loan; and
 - What rate shall the external loan bear and that principal and interest shall be credited to the appropriate reserve or reserve fund source.
- iii) All lending/temporary borrowing shall be provided from discretionary reserve and reserve fund balances as the loaning of obligatory reserve funds is prohibited under the *Development Charges Act, 1997, as amended*.
- iv) Under the *Development Charges Act, 1997, as amended*, debt may be included as a capital cost to leverage development charge (DC) revenue while waiting for DC collections to catch up to growth-related spending. Intra-fund borrowing between DC reserve funds is also permitted. In both cases, amounts borrowed must be repaid at the City’s internal rate of return and principal and interest are credited to the appropriate reserve or reserve fund source.

e) Termination of Reserves and Reserve Funds:

- i) A discretionary reserve or reserve fund shall be terminated (wound down and closed) when the program or project it supports meets any of the following criteria:
- No longer in the scope of the City’s strategic plans;
 - Program commitments have been completed and no future commitments are expected; and
 - The City Treasurer is confident that balances in other areas can mitigate the need to hold any remaining reserve or reserve fund balance.
- ii) Reserves or reserve funds identified for termination shall be reported to Council for review and approval. Reports to Council shall include recommendations regarding the timing of wind down, closure and the allocation of fund balances.

4.3. Standard of Care

a) Delegation of Authority

- i) Once Council approves reserves by resolution and reserve funds by by-law, the City Treasurer shall have overall authority for the reserves and reserve funds managed by the City.
- ii) The City Treasurer may delegate management authority over the reserves and reserve funds managed by the City to a designate.
- iii) The City Treasurer, or designate has the responsibility for setting reserve and reserve fund targets, it being noted targets will be periodically reported to Council through reserve and reserve fund reports (see Reporting Requirements below).
- iv) The City Treasurer, or designate shall have overall responsibility for this Policy, and the authority to implement a program for reserves and reserve funds and establish procedures consistent with the content of this Policy. Administrative responsibilities shall include, but are not limited to the following:
 - Determines need for reserves and reserve funds for operating and capital budgets.
 - Sets targets for reserves and reserve funds in line with directives contained in this Policy and other pertinent policies.
 - As part of the reporting to Council, reviews and reports on the adequacy and continuing need for reserves and reserve funds managed by the City.
 - Preparation and presentation of reports and/or by-laws associated with the establishment, monitoring, or termination of reserves and reserve funds.
 - Develops appropriate practices, procedures and processes for the investment of reserves and reserve funds in line with legislative requirements, the City's Investment Policy and other pertinent policies.
 - Prepares the City's long-term strategic financial plan with consideration of appropriate reserves and reserve funds to effectively meet the City's operating and capital budget financing needs.
 - Ensures reserves and reserve funds managed by the City are in line with senior government statutes and agreements and other pertinent policies.

b) Reporting Requirements:

- i) The City Treasurer, or designate shall prepare the following reports regarding reserves and reserve funds managed by the City:
 - Annual Audited Financial Statements - the annual audited financial statements shall include a statement of financial position, financial activities, and changes in fund balances for reserves and reserve funds.
 - Reserve and Reserve Fund Report - a financial plan forecasting reserve and reserve fund balances and a comparison to target objectives shall be prepared periodically based on the most current information available; this report may include the establishment of new, modification of existing and termination of existing reserves and reserve funds.
 - Budget Reports - reserve and reserve fund balances, projected contributions and planned drawdowns for a ten year period shall be presented in each multi-year budget. Annual changes to reserve and reserve fund balances shall be presented with each annual budget update, or specifically by resolution if required.
 - DC Reserve Funds Report - an annual report detailing pertinent information regarding DC reserve funds shall be presented to Council as required by the *Development Charges Act, 1997, as amended*.
 - Other reports in line with this Policy shall be brought forward to Council as needed.

c) Policy Review

- i) This Policy shall be presented to Council for review and update, if applicable, every four years, in the first year of each elected Council, or as deemed necessary by Council or the City Treasurer.