

Bill No. 336
2021

By-law No. CPOL.-46()-__

A by-law to amend By-law No. CPOL.-46-242, as amended, being "Surplus/Deficit Policy", to add clarifying language in the policy section and renumber accordingly.

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 "Surplus/ Deficit Policy", be amended to add clarifying language in the policy section and renumber accordingly;

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", is hereby amended by deleting Schedule "A" to the By-law in its entirety and by replacing it with the attached new Schedule "A".
2. This by-law shall come into force and effect on the date it is passed.

PASSED in Open Council on August 10, 2021.

Ed Holder
Mayor

Catharine Saunders
City Clerk

First Reading – August 10, 2021
Second Reading – August 10, 2021
Third Reading – August 10, 2021

Schedule “A”



London
CANADA

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.-_____)

Last Review Date: August 10, 2021

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:** Approval 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.

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 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 authorized but unissued debt, it being noted that debt reduction will reduce future years' debt servicing costs. If the operating surplus allocation exceeds the authorized debt amount, the authorized debt shall be reduced to nil with the remaining surplus added to the allocations specified in 4.1.2 (c)(ii) and (c)(iii).
 - 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

- e) 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 authorized but unissued debt, it being noted that debt reduction will reduce future years' debt servicing costs. If the operating surplus allocation exceeds the authorized debt amount, the authorized debt shall be reduced to nil with the remaining surplus added to the allocation specified in 4.1.2 (f)(ii).
 - 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 authorized but unissued debt, it being noted that debt reduction will reduce future years' debt servicing costs. If the operating surplus allocation exceeds the authorized debt amount, the authorized debt shall be reduced to nil with the remaining surplus added to the allocation specified in 4.1.2 (i)(ii).
 - 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 1st to June 30th)
- ii) Operating Budget Year-End Monitoring Report (January 1st to December 31th)