

<b>Policy:</b> <b>Reserve and Reserve Fund</b>	<b>Policy #:</b> <b>FN-398</b>
<b>Department:</b> <b>Finance Services</b>	<b>Effective Date:</b> <b>September 14, 2016</b>
	<b>Revision Date:</b> <b>N/A</b>

## 1.0 Policy Statement

It is the policy of the Corporation of the Town of Lakeshore:

- To establish reserves and reserve funds for planned future capital expenditures, unexpected or unpredicted events, or extraordinary expenditures which would otherwise cause fluctuations in the operating and capital budgets,
- To manage reserves, reserve funds and deferred revenues in a responsible manner, and
- To use reserves, reserve funds and deferred revenues solely for the specific purpose previously determined.

## 2.0 Purpose

- 2.1** This policy outlines guidelines and criteria for the administration of reserves and reserve funds to ensure good financial management for the ongoing financial stability of the Town. The primary objective of the Reserve and Reserve Fund Policy is to ensure that monies are set aside for the long term goals of the Town and that those funds will be available when needed.
- 2.2** This policy will inform decisions relating to long-range financial planning for capital projects in order to minimize both debt servicing costs and significant annual budget impacts, by allocating costs to benefitting users over a number of years through the prudent use of reserves and reserve funds.
- 2.3** This policy defines and delineates how the Town of Lakeshore reserves and reserve funds are established, amended, closed, allocated to/from and reported.

### 3.0 Definitions

**“Deferred Revenue”** means revenue that is considered a liability on the Town’s financial statements until it becomes relevant to current operations, such as prepayment received for goods or services that have not yet been provided. Some Deferred Revenue is set aside in obligatory reserve funds for a specific purpose as required by legislation, regulation, or agreement such as development charges, cash-in-lieu of parkland, and federal gas tax.

**"Discretionary Reserve Fund"** means reserve funds created at the discretion of Council whenever revenues are earmarked to fund future expenditures of a purpose designated by Council.

**"Obligatory Reserve Fund"** means reserve funds that are required by legislation or agreement to be segregated from the Town's general revenues for a special purpose or for works to be undertaken on behalf of the contributor. These funds are classified in the financial statements as Deferred Revenue.

**"Reserve"** means an allocation of accumulated net revenue that makes no reference to any specific asset and does not require the physical segregation of money. Established primarily for the purpose of providing working funds. A reserve may be established for a predetermined purpose and applied for that purpose at the discretion of council.

**"Reserve Fund"** means a fund that is segregated and restricted to meet a specified purpose and includes both obligatory reserve funds and discretionary reserve funds.

### 4.0 Scope

4.1 This policy applies to all reserves and reserve funds of the Corporation of the Town of Lakeshore.

### 5.0 Policy

#### 5.1 Categories and Target Balances

##### 5.1.1 Reserves

Operating reserves

Operating reserves will be maintained to fund operating items that were not anticipated and/or budgeted. Operating reserves can also be used as a mechanism to set funds aside for expenditures in future

years. The Town's Operating Reserves include the reserves listed in Appendix C, as amended by Council from time to time.

### Capital reserves

Capital reserves are to be used for long term capital investment projects that will be incurred in the future. Capital reserves are also considered for use of unanticipated expenditures that are related to capital and/or the Town's Infrastructure. The Town's Capital reserves include both lifecycle reserves, for the replacement of capital assets, and non-lifecycle for the development and acquisition of new capital assets. Capital reserves include those listed in Appendix C, as amended by Council from time to time.

### **5.1.2 Discretionary Reserve Fund**

Discretionary reserve funds are established by Council and are deemed to be restricted for certain uses. Discretionary reserve funds shall include those listed in Appendix B, as amended by Council from time to time.

The targeted funding level for the Town's discretionary reserve funds is specific to each fund, and may be influenced by related Council policy and adopted plans, such as the Water Financial Plan.

### **5.1.3 Obligatory Reserve Fund**

Obligatory reserve funds are restricted and are been funded by senior levels of government or third parties for specific purposes that are defined by legislation, agreement and or a municipal By-law. Obligatory reserve funds shall include those listed in Appendix A, as amended by Council from time to time.

These funds will not have a targeted funding level.

## **5.2 Establishment of Reserves and Reserve Funds**

**5.2.1** Council approval is required for establishment of any reserve or reserve fund. Before creating a new reserve, the option of adding an incremental contribution to an existing reserve or reserve fund of a like nature will be considered.

**5.2.2** A reserve may be established on the recommendation of the Director of Finance, through the annual budget and or through a resolution of Council.

**5.2.3** Council, on the recommendation of the Director of Finance, may establish a discretionary reserve fund and shall establish an obligatory reserve fund.

**5.2.4** A reserve fund can be recommended only if at least one of the following applies:

- a) A mandatory obligation exists, either pursuant to legislation or contract
- b) The funds are intended for purchasing or maintaining capital assets
- c) The funds are donated for a specific purpose
- d) The funds are intended to fund a future liability

**5.2.5** A report which recommends the establishment of a reserve or reserve fund will include the following:

- a) Purpose
- b) Contributions
- c) Designated use
- d) Target balance
- c) Conditions and or restrictions

### **5.3 Approval of Funding Allocations to and from Reserves and Reserve Funds**

**5.3.1** Approval of allocations to and from the reserves and discretionary reserve funds will be on the recommendation of the Director of Finance, in accordance with the Town's established policy, budget and or reports to Council, as referred to above.

**5.3.2** Allocations to and from obligatory reserve funds will be in accordance with their related legislation and or agreements.

### **5.4 Allocation of Operating Surplus/Deficit**

**5.4.1** Year-end Water and Wastewater budget surplus or deficit will be allocated to or funded by appropriate Water or Wastewater reserves respectively.

**5.4.2** Year-end General Fund surplus or deficit will be allocated to or funded by appropriate reserves and reserve funds respectively, as approved by Council.

## **5.5 Interest Allocation**

**5.5.1** Reserve funds will be invested in accordance with the Town's investment policy. Earnings shall be credited to each separate reserve bank account that invested the funds. Where multiple reserve funds are included in one bank account, interest shall be allocated to reserve funds on a monthly basis based on the actual balance of the reserve fund.

**5.5.2** Reserves shall not be allocated interest, and interest earned on reserves shall be reported as earnings of the operating fund.

**5.6 Adequacy:** The adequacy of an individual reserve or reserve fund is determined on a case by case basis using an estimate of the timing and magnitude of the cost(s) to be mitigated, and a projection of contributions.

## **5.7 Amending or Closing Reserves and Reserve Funds**

**5.7.1** If the purpose or purposes for which the reserve or reserve fund was created require amendment, the Director of Finance shall report to Council with a recommendation to amend the purpose or purposes for the reserve or reserve fund.

**5.7.2** If the purpose or purposes for which the reserve or reserve fund was created have been accomplished and or the reserve or reserve fund is determined to be no longer necessary, the Director of Finance shall report to Council with recommendations on:

- a) The closure of the reserve or reserve fund
- b) The disposition of any remaining funds
- c) The necessary amendment to any related By-law

**5.7.3** A resolution of Council will be required to amend or close a reserve or reserve fund.

**5.8 Annual Reporting:** Updated forecasts of a reserve or reserve fund will be provided to assist with the evaluation of any increases or decreases in contributions or new expenditures. Forecasts will be developed for each reserve and reserve fund and will be updated annually.

## **6.0 Responsibilities**

### **6.1 Municipal Council shall:**

**6.1.1** In accordance with the Municipal Act 2001, Section 224 develop and evaluate policies, ensure that administrative policies, practices and procedures and controllership policies, practices and procedures are in place and maintain the financial integrity of the municipality.

**6.1.2** Establish new reserves, close existing reserves when no longer required, amalgamate reserves, transfer funds to and from reserves via the budget process, and transfer funds to and from reserves through Council resolution not addressed during the budget process.

### **6.2 Chief Administrative Officer shall:**

**6.2.1** Support the Director of Finance in ensuring the principles and mandatory requirements contained in this policy are applied consistently across all Town departments.

### **6.3 Director of Finance / Treasurer shall:**

**6.3.1** Develop and update this policy as necessary and present changes to Council;

**6.3.2** Manage the Town's reserves and reserve funds in accordance with their purpose and any or all conditions and/or restrictions placed upon them by Council and or governing agreements and legislation and shall ensure they continue to be aligned with Council's goals and objectives;

**6.3.3** Recommend strategies for the adequacy of reserve levels; and

**6.3.4** Report to Council the reserve balances and forecast as part of the annual budget approval process.

### **6.4 Department Directors shall:**

**6.4.1** Provide the Director of Finance with the most current capital asset information to be used in the assessment of the adequacy of capital lifecycle reserves.

## **7.0 Consequences**

**7.1** Failure to adhere to this policy may result in:

- 7.1.1 Loss of reputation for the Town, if its financial stewardship is perceived to be non-transparent.
- 7.1.2 Violation of the *Municipal Act, 2001*, if reserves are not correctly identified and recorded.
- 7.1.3 Violation of Council policy or external agreements if the conditions and restrictions of reserves are not followed.
- 7.1.4 Disciplinary action against any employee found to be in violation of this policy.

## **8.0 References**

- 8.1 Municipal Act, Development Charges Act, Planning Act, Town By-laws and related Agreements, etc.

## Schedule A

Town of Lakeshore					
Reserve Funds and Reserves - Obligatory Reserve Funds					
Name	Purpose	Contributions	Designated use	Targeted Balance	Conditions/Restrictions
Federal Gas Tax	Restricted grant funding provided through Federal Gas Tax Agreement with Canada and transfer agreement with County of Essex	Annual contributions from Federal Gas Tax transfers, plus interest earned on fund balance.	Infrastructure and related projects	Not Applicable	Allowable uses under Federal Gas Tax Agreement and program guidelines as prescribed by Canada.
Development Charges	Development Charges (DC) collected per DC Act in accordance with municipal by-law	Developer contributions per DC Charges schedule; interest earned on fund balance	Growth related portion of capital projects and studies (e.g. Official Plan, DC Study), etc.	Not Applicable	Allowable uses under Development Charges Act
Building Services - Capital	To mitigate activity fluctuations in the Building permit area.	Transfers of cumulative operating surpluses, based on both Building Services direct costs as well as Corporate indirect costs. Interest earned or incurred on any balances in the reserve is also itemized.	Capital purchases for Building Code enforcement activities, including vehicles and computers.	Not Applicable	Allowable uses under the Building Code Act
Building Services - Operating	To mitigate activity fluctuations in the Building permit area.	Any cumulative operating surpluses, less portion transferred to Building Dept. Capital fund, based on both Building Services direct costs as well as Corporate indirect costs. Interest earned or incurred on any balances in the reserve is also itemized.	Building Code enforcement activities, such as a funding a related deficit in a particular year.	Not Applicable	Allowable uses under the Building Code Act
Park Development	Development Fees in lieu of providing parkland - fees collected through development process	Developer contributions under development agreement; interest earned on fund balance	Acquisition of parkland or for other public recreational purposes, including the erection or repair of buildings and the acquisition of machinery for park or other recreational purposes.	Not Applicable	Allowable uses under Planning Act
Parking Lot Development	To provide for adequate parking facilities (non-residential) in the previous Belle River core	Developer contributions per Planning Act, Cash in Lieu of Parking Policy and Zoning By-law 2012, plus interest earned on fund balance	Provision of additional parking spaces (non-residential) within the area defined in Schedule C (core Belle River) to the By-law	Not Applicable	Allowable uses in accordance with Zoning Bylaw 002-2012, Cash-in-lieu of parking policy and Section 40 of the Planning Act
Tree Planting - Subdivisions	Development Fees collected to fund tree planting in the municipal right of way in new subdivisions/developments	Developer contributions per Development Agreements and Development Manual (standards), plus interest earned on fund balance	Planting one tree per lot	Not Applicable	Allowable uses per Development Manual and Development Agreements (various)



## Schedule A

Town of Lakeshore					
Reserve Funds and Reserves - Obligatory Reserve Funds					
Name	Purpose	Contributions	Designated use	Targeted Balance	Conditions/Restrictions
Provincial Funding	Ontario Grant Funding for use per agreements and program guidelines as prescribed by Ontario	Province of Ontario grant and contribution funding transfers	Capital infrastructure projects and other eligible expenditures per Ontario program guidelines and agreements	Not Applicable	Allowable uses under agreement and program guidelines as prescribed by Ontario.
Federal Funding	Federal Grant Funding for use per agreements and program guidelines as prescribed by Canada	Federal funding transfers	Capital infrastructure projects and other eligible expenditures per Federal program guidelines and agreements	Not Applicable	Allowable uses under agreement and program guidelines as prescribed by Canada.

Town of Lakeshore					
Reserve Funds and Reserves - Discretionary Reserve Funds					
Name	Purpose	Contributions	Designated use	Targeted Balance	Conditions/Restrictions
Water	Water rate stabilization and capital purchases and renewals	Net Operating surpluses and recovers from development charge collections for growth related capital expenditures financed by the water reserve fund. Plus interest earned on fund balance.	Fund fiscal water operations deficits, capital renewals, and interim financing for growth related capital pending future DC collections. Also, used to repay loan from ELK reserve fund and to transfer funds to the water plant filter	Under Review - Based on the Asset Management Plan, Water Master Plan and Water Financial Plan	
Water Plant Filter	To provide for water plant filter replacements	Transfers from Water Reserve Fund plus interest earned on fund balance.	Replacement of water plant filters	Under Review - Based on the Asset Management Plan, Water Master Plan and Water Financial Plan	
Wastewater	Wastewater rate stabilization and capital purchases and renewals	Net Operating surpluses and recovers from development charge collections for growth related capital expenditures financed by the wastewater reserve fund. Plus interest earned on fund balance.	Fund fiscal wastewater operations deficits, including funding capital renewals, revenue shortfall in relation to expenditures, and interim financing for growth related capital pending future DC collections. Also, used to repay loan from ELK reserve fund.	Under Review - Based on the Asset Management Plan, Wastewater Master Plan and Wastewater Financial Plan	
Debt Reduction	To reduce the need to issue debt to finance capital projects	Initial contribution from proceeds of sale of shares in E.L.K. utility. Annual contributions from repayment of interest bearing loans to operating, water and or wastewater reserve funds. Appropriations made from time to time from operating budgets. Plus interest earned on fund balance.	Internal financing of capital projects for general fund, water and wastewater operations	Not Applicable	
Future Employee Benefits	To provide for current and future employee and retiree benefits, including claims and administrative service fees	Net surplus returned from benefits provider. Interest earned on fund balance.	Fund employee and retiree benefit deficits	Not Applicable	

## Schedule C

Town of Lakeshore					
Reserve Funds and Reserves - Reserves					
Name	Purpose	Contributions	Designated use	Targeted Balance	Conditions/Restrictions
<b>Operating (General fund)</b>					
Working Funds	Provide for general cashflow requirements under the general fund	Appropriations made from time to time from operating budgets and operating budget surpluses.	To fund the day-to-day operations and provide the ability to meet current liabilities .	2 months operating expenses	Contribution plan required to repay any disbursements from this reserve
Contingency	Provide funding for one-time, unexpected expenditures or revenue shortfalls.	Appropriations made from time to time from operating budgets and retained indemnity deposits per Tariff of Fees By-law.	To fund one-time, unexpected expenditures or revenue shortfalls.	5% of general fund annual operating expenses	
Assessment Stabilization	Provide for unexpected property assessment changes and related tax adjustments during the year.	Appropriations made from time to time from operating budgets.	To fund shortfall in property tax revenues, such as unexpected in-year assessment change and appeal impacts	5% of prior year municipal tax levy	
Accumulated Sick Leave	Provide for payment of vested, accumulated sick time credits to grandfathered employees upon termination of employment.	No further need for contributions identified - appropriations have been made from past operating budgets.	To fund vested sick time payouts to eligible employees at retirement	Not Applicable	Reserve to be drawn down as grandfathered employees terminate employment, and then closed
CIP	To segregate funds levied but not spent under the Community Improvement Plan (CIP)	Transfers from portion of operating surplus related to CIP	To fund eligible costs under the CIP	Not Applicable	Use per terms of CIP
Community Benefit	Provide for community betterment projects and/or services related to energy efficiency, sustainable development or renewable energy	Community benefit contributions under wind turbine agreements	To fund community betterment initiatives	Not Applicable	Use per terms of wind turbine agreements
Employee Related	Provide for unexpected, periodic and one-time staff related costs	Appropriations made annually from operating budgets.	To fund staff related costs for employment transitions, internal and pay equity adjustments, unexpected WSIB costs and other such costs.	Under Review	
Self Insuring	Provide for unexpected or one-time insurance costs	Appropriations made annually from operating budgets.	To fund under-deductible insurance claim costs and significant premium fluctuations on renewals	Under Review	
Police Operating	Provide for unexpected or one-time costs related to the provision of police services	Appropriations made annually from operating budgets.	To fund fluctuations in policing costs under OPP contract renewals and fiscal expenditures	Under Review	
Technology Software	Provide for cyclical and one-time acquisitions of software to maintain or enhance municipal operations and customer service	Appropriations made annually from operating budgets.	To fund replacement, upgrade and acquisition of softwares	Under Review	
Winter Control	Provide for unexpected operating costs related to extreme winter weather	Appropriations made from time to time from operating budgets.	To fund winter control operations in unusually heavy snowfall and ice years.	50% of 5 year average winter control costs	

## Schedule C

Town of Lakeshore					
Reserve Funds and Reserves - Reserves					
Name	Purpose	Contributions	Designated use	Targeted Balance	Conditions/Restrictions
Road Share Drainage Works	Provide for road share of municipal drainage costs	Appropriations made annually from operating budgets.	To fund drain maintenance and construction costs assessed as municipal roads share	Under Review	
Building Repairs and Maintenance	Provide for unexpected or one-time costs for repairs and maintenance to municipal facilities	Appropriations made annually from operating budgets.	To fund unexpected or one-time facility repairs and maintenance costs that ensure facilities remain functional and safe during their useful life.	Under Review	
Election	Provide funding for cyclical municipal elections and related costs for council transition	Appropriations made annually from operating budgets.	To fund cost to run the election and to transition council	Under Review	
Tree Replacement	Provide for funding periodic tree replacements on municipal property	Appropriations made from time to time from operating budgets	To fund unexpected or one-time cost for tree replacements on municipal property	Under Review	
Plans and Studies	Provide funding for cyclical plans and study requirements	Appropriations made annually from operating budgets.	To fund cost of plans and studies required on a cyclical basis, such as Official Plan, Zoning By-law, Development Charges Study, Energy Management Plan, etc.	Under Review	
<b>Operating (Water)</b>					
Water Working Funds	Provide for general cashflow requirements under the water fund	Appropriations made from time to time from water operating budget	To fund the day-to-day water operations and provide the ability to meet current liabilities.	2 months operating expenses	Contribution plan required to repay any disbursements from this reserve
Water - Contingency	Provide funding for one-time, unexpected expenditures or revenue shortfalls.	Appropriations made from time to time from operating budgets	To fund one-time, unexpected expenditures or revenue shortfalls.	5% of water fund annual operating expenses	
<b>Capital - Lifecycle (General fund)</b>					
Vehicles and Equipment	Provide funding for replacement and betterments of vehicle and equipment capital assets. Excludes Fire and Building services assets, which are addressed in other reserves and funds.	Appropriations made annually from operating budgets and net proceeds of asset disposals	To fund replacement and betterments to existing vehicles and equipment assets, excluding Fire and Building services related	Under Review - Based on the Asset Management Plan	
Technology and Office Equipment	Provide funding for replacement and betterments of technology and office equipment capital assets.	Appropriations made annually from operating budgets	To fund replacement and betterments to existing technology and office equipment assets.	Under Review - Based on the Asset Management Plan	
Facilities	Provide funding for replacement and betterments of facility capital assets.	Appropriations made annually from operating budgets	To fund replacement and betterments to existing facility assets.	Under Review - Based on the Asset Management Plan	
Fire Vehicles and Equipment	Provide funding for replacement and betterments of fire services vehicles and equipment capital assets.	Appropriations made annually from operating budgets and net proceeds of asset disposals	To fund replacement and betterments to existing fire services vehicles and equipment assets	Under Review - Based on the Asset Management Plan	
Roads	Provide funding for replacement and betterments of road and related capital assets.	Appropriations made annually from operating budgets.	To fund replacement and betterments to existing road and related assets	Under Review - Based on the Asset Management Plan	

## Schedule C

Town of Lakeshore					
Reserve Funds and Reserves - Reserves					
Name	Purpose	Contributions	Designated use	Targeted Balance	Conditions/ Restrictions
Railway Crossings	Provide funding for replacement and betterments of railway crossing assets.	Appropriations made annually from operating budgets.	To fund replacement and betterments to existing railway crossing assets.	Based on the Asset Management Plan	
Bridges & Culverts	Provide funding for replacement and betterments bridges and culverts (>3m) capital assets.	Appropriations made annually from operating budgets.	To fund replacement and betterments to existing bridge and culvert assets.	Under Review - Based on the Asset Management Plan	
Storm Water	Provide funding for replacement and betterments of storm water related capital assets.	Appropriations made annually from operating budgets.	To fund replacement and betterments of existing storm water related capital assets	Under Review - Based on the Asset Management Plan	
Playground Equipment	Provide funding for replacement and betterments of playground equipment capital assets.	Appropriations made annually from operating budgets.	To fund replacement and betterments to existing playground equipment assets.	Under Review - Based on the Asset Management Plan	
Trails - Existing	Provide funding for replacement and betterments of trail assets.	Appropriations made annually from operating budgets.	To fund replacement and betterments to existing trail assets.	Under Review - Based on the Asset Management Plan	
Gravel Roads Conversion	Provide funding for betterments to gravel road capital assets.	Appropriations made annually from operating budgets.	To fund betterments to existing gravel road assets.	Under Review - Based on the Asset Management Plan	
<b>Capital - Non-Lifecycle (General fund)</b>					
Facility/Property - New	Provide funding for new building and property (land) assets	Appropriations made annually from operating budgets.	To fund acquisition of facility and property assets	Under Review - reference Facility Needs Studies	
Streetlights - New	Provide funding for new streetlight assets	Appropriations made from operating surplus related to streetlight electricity	To fund new streetlight assets for areas of the municipality currently without streetlights	Under Review - Reference Streetlight Needs Review	
Trails - New	Provide funding for new trail assets	Appropriations made annually from operating budgets.	to fund new trail assets	Under Review - Reference Trails Master Plan	