



RESERVE AND RESERVE FUNDS POLICY

Approval: Pending

Audit, Finance & Administration Committee - Staff Report FCS25002

RESERVE AND RESERVE FUND POLICY	
Policy Statement	This Policy establishes the guiding principles, primary objectives, key management and administrative responsibilities and reporting requirements for reserves and reserve funds managed by the City.
Scope	<p>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.</p> <p>Although this Policy provides overarching guidelines that apply to all reserves and reserve funds, individual reserve and reserve fund policies will be used to understand the intended use, relevancy, appropriateness, adherence to any specific funding agreements and any other legislative agreements or Acts and target annual allocation and balances.</p> <p>These individual policies will be required to comply with the overarching guidelines. Any new reserve or reserve fund that is established in the future will be required to have an individual reserve or reserve fund policy.</p>
Purpose	<p>The primary objectives of this Policy shall be:</p> <ul style="list-style-type: none"> a) Adherence to statutory requirements b) Promotion of financial stability and flexibility c) Maintaining liquidity targets d) Maintaining the City's credit rating e) Promotion of intergenerational equity <p>a) Adherence to Statutory Requirements</p> <ul style="list-style-type: none"> i) It shall be the City's practice to establish and maintain segregated reserve funds that meet all statutory obligations.



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	<p>ii) Reserves and reserve funds shall be managed in accordance with the <i>Municipal Act, 2001, as amended</i>. This includes but is not limited to:</p> <ul style="list-style-type: none"> • Section 10 (2) authorizing single-tier municipalities to pass by-laws respecting accountability, transparency and financial management; • Section 290 (2) indicating that the budget shall set out the estimated revenues and expenditures of reserves and reserve funds contained within a municipality's budget; • Section 291 covering multi-year budget requirements of municipalities; • Section 417 (3) noting 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) indicating that, as allowed by the Corporation, money held in any fund (including General, Capital and Reserves and Reserve Funds) may be combined for investment purposes; and • Section 418 (4) indicating that earnings from combined investments shall be credited to each segregated fund in proportion to the amount invested in it. <p>iii) Reserves and reserve funds shall be established by Council, which governs the purpose, funding sources, and drawdowns of the fund.</p> <p>b) Promotion of Financial Stability and Flexibility</p> <p>i) Reserves and reserve funds shall form an integral component of the City's budget and long-term financial plan.</p> <p>ii) Reserves and reserve funds shall be kept at an adequate level in accordance with the individual reserve and reserve fund policies.</p> <ul style="list-style-type: none"> • The City shall strive to maintain adequate reserve and reserve fund levels in line with public service associations' best practices,
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	<p>bond rating agencies standards and other municipalities with comparable credit ratings.</p> <ul style="list-style-type: none">• It shall be the City's goal to maintain sufficient reserves and reserve funds to:<ul style="list-style-type: none">– Replace and rehabilitate major capital assets, as required;– Provide for new capital assets that have been identified in the long-term capital plan;– Pay for future operating expenses required to provide stable municipal services in the event of revenue short-falls, higher-than-expected expenses or short-term cash flow requirements; and– Fund strategic initiatives that support Council Priorities and Strategic Plan. <p>iii) Reserves and reserve funds shall be used to reduce the need for tax-levy and rate funded debentures.</p> <ul style="list-style-type: none">• As per the principles of the Council approved Debt Management Policy (FCS13074), the City shall use reserve and reserve fund balances as a source of capital financing in alignment with the financing plans for Council approved asset management plans.• 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. <p>iv) Reserves and reserve funds shall be invested, subject to market conditions, while ensuring adequate liquidity is maintained.</p> <ul style="list-style-type: none">• Reserves and reserve funds invested shall be in accordance with the Council approved Investment Policy (FCS24004). <p>v) 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.</p> <p>c) Liquidity</p>
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	<p>i) 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:</p> <ul style="list-style-type: none"> • Replace and rehabilitate capital infrastructure assets that are funded from capital specific reserves; • Supply funds for capital assets that are required due to emergencies or to advance strategic initiatives; • Fund long-term contingencies and potential liabilities; and • Provide a buffer for significant unanticipated expenditures, or loss of revenues beyond the control of the City. • Provide a temporary buffer for significant anticipated expenditures, or loss of revenues that are within the control of the City. <p>d) Credit Rating and Cost of Borrowing</p> <p>i) Reserve and reserve fund balances impact the City's credit rating and associated cost of borrowing thus, at a minimum, the City shall strive to maintain reserve and reserve fund balances at the established target balances, where applicable.</p> <p>e) Intergenerational Equity</p> <p>i) 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.</p>
<p>Transparency</p>	<p>The Reserves and Reserve Funds Policy is to be made public. In addition to making the Policy available to the public, annual reports will provide transparency around reserves and reserve funds.</p> <ul style="list-style-type: none"> • Reserve Report - a detailed record of reserve and reserve fund balances and forecasts. This report may include the establishment of new, modification of



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	<p>existing and closure of existing reserves and reserve funds. Updates to the reserves and reserve funds policy may also be included in this report.</p> <ul style="list-style-type: none"> • Budget Reports - reserve and reserve fund balances and projected contributions shall be presented in the annual budget. • Annual Audited Financial Statements - the annual audited financial statements shall include a statement of financial position, financial activities, changes in fund balances for reserves and reserve funds, separately for outstanding sinking funds.
<p>Related Legislation and Principles</p>	<p>Reserves and reserve funds are to be managed in accordance with the <i>Municipal Act, 2001, as amended</i>.</p>
<p>Definitions</p> <p>“Asset”</p> <p>“Asset Management Plan”</p> <p>“Capital Budget”</p> <p>“Capital Project ID”</p> <p>“City”</p> <p>“Debt”</p>	<p>An item, thing or entity that has potential or actual value to an organization. It can be tangible or intangible, financial, or non-financial and includes consideration of risks and liabilities.</p> <p>A document that specifies the activities, resources and timescales required for the asset network to achieve its objectives. Long-term plans (usually 10-25 years or more) that outline the asset activities and programs for each service area and resources applied to provide a defined level of services in the most cost effect way.</p> <p>The expenditures and financing sources to acquire or construct City's assets as approved by City Council.</p> <p>A unique 10-digit number which identifies the capital project involved in a transaction.</p> <p>The City of Hamilton.</p> <p>Any obligation for the payment of money. 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.</p>



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“Dept ID”	A 6-digit number which identifies the City’s operating unit involved in transaction.
“Discretionary Reserve Fund”	A type of reserve fund that is established by Council by-law for a specific purpose. While the City has discretion in the establishment of this type of reserve fund, the funds can only be used to meet the purposes established in the by-law.
“Financing Plan”	A plan that identifies the revenue sources and the proposed expenditures to be incurred to meet the outlined objectives.
“Intergenerational Equity”	The concept or idea of fairness or justice between generations.
“Liquidity”	A measure of an asset’s convertibility to cash.
“Obligatory Reserve Funds”	A reserve fund that is required to meet a provincial statute or agreement with other entities such as the Federal or Provincial governments. The City can use the available funds solely for the purposes prescribed for them by statute or agreement.
“Operating Budget”	The financial and human resources approved by City Council for the ongoing operation of municipal services (i.e. salaries, materials and supplies, contracted services, utilities).
“Long-Term Financial Plan”	A document that details the City’s current financial position, its long-term goals and financial requirements, and a strategy on how to meet its requirements.
“PSAB”	Refers to the Public Sector Accounting Board, an independent board with the authority to set accounting standards for the public sector.
“Reserve”	Funds that have been set aside by Council resolution or allocation for an intended purpose, but not restricted by provincial or municipal legislation.
“Reserve Fund”	Funds that have been set aside either by a by-law of the City or by a requirement of senior government statute or agreement to meet a future event. As a result, reserve



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<p>“Revolving Reserves and Reserve Funds”</p> <p>“Sinking Fund”</p>	<p>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. The City may set up reserve funds for any purpose for which they have the authority to spend money.</p> <p>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 the intent of the originating resolution or by-law.</p> <p>Funds managed by the City, for which an estimated amount is contributed each year, that will be sufficient to pay the principal of the related debentures at maturity.</p>
<p>Usage and Limitations</p>	<p>a) Expenses cannot be charged directly to reserves or reserve funds. Requests for funds must be made through Council Approval or the exceptions listed under the responsibilities of the Director, Financial Planning, Administration and Policy.</p> <p>b) If the annual operating budget is in a deficit position, transfers shall not be made to reserve or reserve fund.</p> <p>c) Reserves or reserve funds shall not be drawn into a negative position.</p> <p>i) An exception will be permitted only with approval from the General Manager of Finance and Corporate Services.</p>
<p>Policy Owner</p>	<p>The owner of the Policy is the Director, Financial Planning, Administration and Policy.</p>
<p>Administration</p>	<p>The Reserve and Reserve Funds Policy shall be administered by the Financial Planning, Administration and Policy Division within the Corporate Services Department. This Policy shall be presented to Council for review and updated as deemed necessary by Council or the General Manager of Finance and Corporate Services.</p> <p>Responsibilities</p> <p>a) Municipal Council</p>



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	<p>i) In accordance with the <i>Municipal Act, 2001, Section 224</i>, 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.</p> <p>ii) Approve transactions to and from reserves and reserve funds through the budget process or by specific resolution and / or by-laws.</p> <p>b) City Manager</p> <p>i) Support the General Manager of Finance and Corporate Services in ensuring the principles and mandatory requirements contained in this policy are applied consistently across all the City's departments.</p> <p>c) General Manager of Finance and Corporate Services</p> <p>i) Establish and manage reserves and reserve funds.</p> <p>ii) Establish the Long-Term Financial Plan that identifies the needs for reserves and reserve funds to support it.</p> <p>iii) Establish target funding levels for reserve and reserve funds. Methods for calculating reserve and reserve fund targets shall be determined on a case-by-case basis considering the following:</p> <ul style="list-style-type: none"> • Purpose of fund (i.e. operating or capital); • Certainty of end needs (i.e. for contingent liability or long-term asset; • replacement) • Economic factors (inflation, interest rates, cyclical pressures); • Best practices or standards regarding the identification of need and target balance levels; • Initial Contribution, if any; and • Multi-year forecast of contribution and projected usage. <p>iv) Periodically review reserve and reserve fund balances and associated to ensure adequate reserve and reserve fund levels.</p>
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	<p>v) Update reserve and reserve fund names while ensuring the purpose and intended use of the reserve or reserve fund is not changed.</p> <p>vi) Recommend the closure of reserve and reserve funds.</p> <ul style="list-style-type: none"> • A discretionary reserve or reserve fund shall be closed when the program or project it supports meets any of the following criteria: <ul style="list-style-type: none"> – No longer in the scope of the City's strategic plans; – Program commitments have been completed and no future commitments are expected; and – The General Manager of Finance and Corporate Services is confident that balances in other areas can mitigate the need to hold any remaining reserve or reserve fund balance. • Reserves or reserve funds identified for closure 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. <p>vii) Ensure that the principals and requirements contained in this policy are applied consistently across all departments.</p> <p>viii) Endorse reserve and reserve fund investment strategies recommended by Director, Financial Services, Taxation and Corporate Controller.</p> <p>ix) Endorse reserve and reserve fund financial strategies recommended by Director, Financial Planning, Administration and Policy.</p> <p>d) Director, Financial Planning, Administration and Policy</p> <ul style="list-style-type: none"> i) Develop and update this Policy as necessary and present changes to Council. ii) Monitor and reconcile all receipts to and disbursements from reserve and reserve fund accounts to ensure compliance with provincial regulations, PSAB and Reserve Policy.
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	<p>iii) Oversees the transfers to and from reserves and reserve funds as authorized by Council.</p> <ul style="list-style-type: none"> • Transfers to and from reserves and reserve funds shall be made in accordance with applicable resolution, by-law and this Policy. • Transfers to and 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: <ul style="list-style-type: none"> – Direct contributions to/drawdowns from reserves and reserve funds such as development charges revenue; – Transfers that are the direct result of the year end surplus/deficit; – Transfer of funds between reserves and reserve funds based upon adequacy analysis or other relate information, at the discretion of the General Manager of Corporate Services; and – Use of “revolving” reserves and reserve funds for the purpose approved by Council. – All transfers to and from reserve and reserve funds will be clearly identified and segregated within the City's accounting system and accounted for by either an entry or to or from an operating dept. ID or capital project. • All transfers to and from reserves or reserve funds that are approved by Council, will require a journal, transferring the funding to/from the reserve or reserve fund to/from the identified Capital Project ID or Dept ID. • Upon Council Approval of a transfer from a Capital Project ID or Dept ID to a reserve or reserve fund, a journal will be processed as soon as operationally feasible. • Upon Council Approval of a transfer from a reserve or reserve fund to a Capital Project ID or Dept ID, journals will be processed as expenses are incurred. <ul style="list-style-type: none"> – These journals will be incorporated into existing month end financial processes.
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	<ul style="list-style-type: none"> iv) Recommend strategies for the adequacy of reserve levels. v) Allocate investment and interest income to reserve and reserve funds. <ul style="list-style-type: none"> • All reserves and reserve funds are eligible to receive interest through this process and will be budgeted investment earnings based on an estimated rate of return and average balance of the portfolio for the year. • The total interest to be distributed is calculated as: Total Investment Income and Interest Earned less Interest Allocated to the Tax Operating Fund. • The total interest to be distributed will be allocated to all reserves and reserve funds based on the proportionate share of the fund to the total average balance of the portfolio at year end. • Proportionate share is calculated as. The average balance of the reserve or reserve fund at year end divided by the average balance of the total portfolio at year end. • The average balance at year end is calculated as: the sum of each month's ending balance divided by 12. • Month end balances only include actual transactions that have been processed and not future commitments. vi) Report the estimated reserve and reserve fund balances and forecasts to Council as part of the annual budget approval process. vii) Develop long range fiscal planning strategy to effectively meet the City's capital financing and capital asset replacement requirements. viii) Validate the need for reserves and reserve funds for operating and capital. ix) Ensure a review and report to Council of the adequacy and continuing need for reserves and reserve funds is undertaken when deemed necessary. x) Adherence to Development Charges Act, Canada Community Building, Fund Agreement, Ontario Infrastructure Fund Agreement, and any other legislative agreements or Acts.
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	<p>e) Directors</p> <ul style="list-style-type: none"> i) Provide the Director, Financial Planning, Administration and Policy with the most current capital asset information to be used in the assessment of the adequacy of capital lifecycle reserves or reserve funds. ii) Identify the need for reserves and reserve funds for operating and capital initiatives that require a funding source. iii) Inform the Director, Financial Planning, Administration and Policy when reserves or reserve funds transfers are required. iv) Consult with the Director, Financial Planning, Administration and Policy when reserves or reserve funds are required for unbudgeted transactions. <p>Delegation of Authority</p> <ul style="list-style-type: none"> i) Once Council approves reserves by resolution and reserve funds by by-law, the General Manager of Corporate Services shall have overall authority for the reserves and reserve funds managed by the City. ii) The General Manager of Corporate Services may delegate management authority over the reserves and reserve funds managed by the City to a designate.
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