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<b>SECTION:</b>	ADMINISTRATIVE SERVICES
<b>DEPARTMENT/DIVISION:</b>	CORPORATE SERVICES (OFFICE OF THE CITY TREASURER)
<b>SUBJECT:</b>	<b>RESERVE &amp; RESERVE FUND POLICY</b>

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## **POLICY STATEMENT**

It is the policy of The Corporation of the City of Thunder Bay (“the Corporation”) to establish and govern the management and administration of Reserves and Reserve Funds.

## **PURPOSE**

The purpose of this policy is to establish guiding principles for the establishment, maintenance, management and accounting of Reserves and Reserve Funds.

The establishment of Reserves and Reserve Funds assists in providing for the long-term financial stability and flexibility of the Corporation, positions the Corporation to respond to varying economic conditions and changes that affect its financial position, and ensures the Corporation continues its ability to carry out its responsibilities.

## **SCOPE**

Section 417 (1) of the *Municipal Act, 2001* (the “Municipal Act”) allows a municipality to provide in its budget for the establishment and maintenance of a Reserve Fund for any purpose for which it has authority to spend money.

This policy applies to all of the departments falling within the reporting entity of the Corporation (with the exception of Tbaytel and Thunder Bay Hydro Corporation).

## **OBJECTIVES**

The primary objectives of Reserves and Reserve Funds are:

1. Adherence to statutory requirements;
2. Promotion of financial stability and flexibility;
3. Provision for major capital expenditures;
4. Facilitate long-term financial planning;
5. Smooth expenditures which would otherwise cause fluctuation in the operating budget; and/or
6. Leverage funding opportunities.

## ***GLOSSARY AND DEFINITIONS***

The following capitalized terms are defined terms, which have the meanings set out below:

**Corporation:** means the Corporation of the City of Thunder Bay.

**Council:** means elected municipal council of the Corporation.

**Investment Policy Statement:** refers to the Corporation's Investment Policy Statement (Policy No. 05-01-04).

**Municipal Act:** refers to the *Municipal Act, 2001*, S.O. 2001, c. 25, as amended from time to time.

**Public Sector Accounting Board (PSAB):** refers to an independent board with the authority to set accounting standards for the public sector, including but not limited to the Corporation.

**Reserve:** means an allocation from net revenue 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 segregation of money or assets. Reserves are part of the operating fund and are not allocated investment income/interest.

**Reserve Fund:** means monies that are segregated and restricted for a specific purpose as required by legislation, a municipal by-law or agreement and earn investment income/interest. These include Discretionary and Obligatory Reserve Funds.

- **Discretionary Reserve Fund:** means monies set aside at the discretion of Council for a specific purpose and legislated by municipal by-law.
- **Obligatory Reserve Fund:** means monies set aside to meet the requirements of a provincial legislation or agreement with other entities such as the Federal or Provincial Government. The funds are to be used solely for the purpose prescribed for them by legislation or agreement.

## ***RESERVE AND RESERVE FUND MANAGEMENT***

### **Establishment and Modification**

Reserves and Reserve Funds can be established through the following processes:

1. Inclusion in the annual budget or year-end report, which is approved by Council; or
2. Through a separate resolution of Council.

Following approved direction related to Reserve Funds, Council must pass a by-law to formally establish a Reserve Fund.

This Policy and the Consolidated Reserve Fund By-law will be amended periodically to reflect new or amended Reserves and Reserve Funds.

Reserve Funds will be maintained in the following categories:

1. Discretionary or Obligatory and
2. Further subdivided into:
  - a. Operating
  - b. Capital
  - c. Statutory (obligatory)

Requests for new Reserves and Discretionary Reserve Funds must be accompanied by a business case that will be reviewed by the City Treasurer or designate.

Council, on the recommendation of the City Treasurer, may establish a Discretionary Reserve Fund for any purpose for which they have authority to spend money and shall establish an Obligatory Reserve Fund as required by Provincial or Federal Legislation or agreement with other entities.

A Discretionary Reserve Fund will be established through by-law and can only be used for the identified purpose unless Council passes a resolution.

An Obligatory Reserve Fund is established by way of formal acceptance of the agreement that required the Reserve Fund or through legislation from a higher level of government.

### **Investment**

Reserves and Reserve Funds shall be invested for a term that will not exceed its expected date of need.

Reserves and Reserve Funds are to be invested in accordance with the Corporation's Investment Policy Statement.

Investment income/interest earned on Reserves shall be recognized as revenue in the operating budget; and investment income/interest earned on Reserve Funds shall be recognized in each specific Reserve Fund.

### **Contributions to and Withdrawals from**

Contributions to and withdrawals from Reserves and Reserve Funds shall be made in accordance with applicable resolutions, by-law and this Policy.

Contributions to and withdrawals from Reserves and Reserve Funds shall be approved by Council through the annual budget process or specifically by resolution with the following exceptions:

- Direct contribution to Obligatory Reserve Funds;
- Transfers that are a direct result of Council approved by-laws or resolutions such as the allocation of the annual operating surplus or deficit as part of this Policy and the Reserve Fund By-law; and any future Council approved policies that may direct contributions.

- Transfers of funds between Reserves and Reserve Funds based upon adequacy analysis or other related information, at the direction of the City Treasurer, or designate.

Contributions to and withdrawals from Reserves and Reserve Funds may include:

- Favourable/unfavourable variances in an operating budget;
- Budgeted contribution/withdrawal; and/or
- Unbudgeted/unanticipated Council directed contribution/withdrawal made throughout the year.

Money raised from a Discretionary Reserve Fund may be spent, pledged or applied to a purpose other than that for which it was established, however this must be completed by a resolution of Council.

Budgeted transfers from Reserves and Reserve Funds should not deplete the Reserve or Reserve Fund below the minimum target (if applicable) unless recommended by the City Treasurer. A plan for the future repayment of funds approved by the City Treasurer will be necessary if a Reserve or Reserve Fund is below its minimum balance.

Reserves and Reserve Funds cannot be over committed. All withdrawals and commitments must take into consideration the uncommitted balance of the Reserve or Reserve Fund.

### **Allocation of Operating Surplus / Deficit (Year-end Variance)**

#### **Tax Supported**

When the Corporation's tax supported year-end variance is in a surplus position, Administration will transfer the surplus funds first to the Stabilization Reserve unless the transfer would result in its estimated uncommitted balance at that time to exceed \$10.0 million, in which case the surplus funds in excess of \$10.0 million will be transferred to the Capital General Reserve Fund.

When the Corporation's tax supported year-end variance is in a deficit position, Administration will transfer funds from the Stabilization Reserve to fund the deficit. If there are insufficient funds in the Stabilization Reserve, Administration will review uncommitted Reserve balances as a first option and Discretionary Reserve Fund balances as a second option and seek Council approval to fund the deficit.

#### **Rate Supported**

Any year-end operating surplus/deficit for rate supported operations will be transferred consistent with direction of the budget resolution.

Funds from rate supported operations are separate from Tax and are not included in the above Corporate year-end variance strategy.

## **Target Balances**

To manage risk and ensure sufficiency of funds to meet future sustainability needs Reserve and Reserve Fund target balances will be set, where appropriate. These targets are intended to support achieving objectives outlined in this Policy. Where applicable, targets are identified in the respective appendices of this Policy and the Consolidated Reserve Fund By-law.

As a best practice Administration will integrate the Reserves and Discretionary Reserve Funds with strategies (i.e.: Asset Management Plans, Rate financial plans, Capital budget etc.) to ensure the appropriate funding and balances are available to meet the forecasted needs from those documents.

The City Treasurer or designate will review the targets annually and propose changes to the target levels as required.

## **Maximum Target Balance Strategy**

If the maximum target balance of a tax supported Reserve or Discretionary Reserve Fund is met upon transferring of funds, the excess funds will be reallocated first to the Stabilization Reserve, unless the year-end uncommitted balance of the Stabilization Reserve is greater than \$10.0 million, in which case the excess funds will be transferred to the Capital General Reserve Fund.

## **Lending / Temporary Borrowing**

Temporary borrowing from Reserves and Discretionary Reserve Funds for capital or internal financing may be permitted, when justified, adequately supported and authorized by Council.

However, the following conditions must be met in order to allow borrowing from Reserves and Reserve Funds:

1. Borrowing must not adversely affect the intended purpose;
2. A plan to repay funds within a reasonable timeframe is required and must be documented (Council Resolution);
3. Interest will be applied to the outstanding amount borrowed from Reserve Funds; and
4. Where applicable legislative requirements may apply.

Lending/temporary borrowing from Obligatory Reserve Funds is prohibited.

## **Closing / Termination**

If the purpose(s) for which a Reserve or Reserve Fund was created has been accomplished and it is determined no longer necessary, the City Treasurer shall report to Council with the recommendation on:

1. The closure of the Reserve or Reserve Fund;
2. The reallocation of any remaining funds; and
3. The amendment to the Consolidated Reserve Fund By-law or Schedule A of this Policy.

A resolution of Council will be required to approve the closure of a Reserve or Reserve Fund.

The by-law establishing the Reserve Fund will also be required to be repealed in order to close a Reserve Fund.

## ***ROLES AND RESPONSIBILITIES***

### **City Council**

City Council shall:

- In accordance with the *Municipal Act 2001, Section 224*, develop and evaluate policies, ensure that administrative policies, practices and procedures are in place to implement the decisions of Council and maintain the financial integrity of the municipality;
- Approve transactions to and from Reserves and Reserve Funds through the budget process or specific resolution and by-laws; and
- Approve the establishment, modification and closure of Reserves and Reserve Funds.

### **City Manager**

City Manager shall:

- Support the City Treasurer in ensuring the principles and mandatory requirements contained in this Policy are applied consistently across all the Corporation's Departments.

### **City Treasurer**

Pursuant to the Municipal Act the City Treasurer is responsible for handling all of the financial affairs of the Municipality on behalf of and in the manner directed by Council. By way of this, the City Treasurer is responsible for the management and administration of Reserves and Reserve Funds. This includes but is not limited to the following:

- Ensure that the principles and requirements contained in this Policy are applied consistently across all Departments;
- Determine the need for Reserves and Reserve Funds; and
- Provide recommendation(s) to Council on the establishment and closure of Reserves and Reserve Funds.

The City Treasurer, or designate, shall also:

- Monitor, review and recommend strategies and targets for the adequacy of Reserve and Reserve Fund balances;
- Develop and update this Policy, as necessary and present changes to Council;
- Annually report to Council the Reserve and Reserve Fund balances;
- Forecast Reserve and Reserve Fund balances as part of the annual budget approval process;
- Perform the transfers to and from Reserves and Reserve Funds as authorized by Council;
- Monitor and reconcile all receipts to, and disbursements from, Reserves and Reserve Funds to ensure compliance with provincial regulations, PSAB and internal policies and that funds are not overcommitted;
- Manage the investment of Reserves and Reserve Funds as per the Investment Policy Statement;

- Incorporate the growth and use of Reserves and Reserve Funds into a long-term financial plan for the Corporation's capital financing and the replacement of capital assets;
- Ensure all financial statement reporting requirements for Reserves and Reserve Funds are met; and
- Monitor Reserve and Reserve Fund balances in relation to debt – debt/reserve ratio target.

### **Manager Budgets & Long-Term Planning**

The Manager Budgets & Long-Term Planning, or designate, shall:

- Ensure the appropriate contributions, withdrawals and/or appropriations are accounted for relating to the financial requirements of the Reserves and Reserve Funds; and
- Review annual Reserve and Reserve Fund cash flow projections received in the operating and capital budget submissions.

### **Department General Managers or Designate**

Department General Manager or designate shall:

- Consult with the City Treasurer, or designate on the development of a new Reserve or Reserve Fund or when use of a Reserve or Reserve Fund may be required for unbudgeted transactions;
- Inform the City Treasurer when a Reserve or Reserve Fund purpose is accomplished or where consolidation of Reserves or Reserve Funds may be beneficial; and
- Prepare annual cash flow projections, when applicable.

### ***REPORTING***

The City Treasurer, or designate shall prepare the following reports:

1. Annual budget - Contributions to and withdrawals from Reserves and Reserve Funds are part of the annual budget approved by Council. A forecast of the current year estimated uncommitted balance of all Reserves and Reserve Funds will also be presented to Council with the annual budget for information.
2. Year-end audit and financial statements - Balances of Reserves and Reserve Funds, will be presented as required by PSAB reporting standards.
3. Year-end Corporate Report - Allocation/funding of the year-end tax supported surplus/deficit and any other Reserve and/or Reserve Fund updates.
4. Reporting to Council or other agencies as required by agreement, funding guidelines or legislation.

### ***REVIEW***

This Policy shall be presented to Council for review and update if applicable, every four years, or as deemed necessary by Council or the City Treasurer.

### ***SUPPORTING INFORMATION***

- Appendix A – Schedule of Reserves
- Municipal Act, 2001
- Consolidated Reserve Fund Bylaw
- Investment Policy Statement – 05-01-04

<b>APPROVED BY:</b>	City Council	<b>Date:</b>	September 11, 2023
<b>Replacing/Amending:</b>	10/15/96		
<b>Originating Department:</b>	Corporate Services		
<b>Contact:</b>	Office of the City Treasurer		
<b>Departmental Procedural Manual:</b>	N/A		
<b>Affected Departments:</b>	All		

**APPENDIX A – SCHEDULE OF RESERVES**

<b>Reserve</b>	<b>Purpose</b>	<b>Contributions</b>	<b>Withdrawals</b>	<b>Minimum \$ Balance</b>	<b>Maximum \$ Balance</b>	<b>Special Reporting Requirements</b>
Animal Control Donation	To deposit donations to be used specifically for the benefit of the health and care of animals in Thunder Bay.	Animal control donations.	Trap, Neuter and Return (TNR) Program for feral cats costs.	N/A	N/A	N/A
Capital Expenditure	To hold capital out of revenue funding committed towards uncompleted capital projects.	Carryforward capital funding.	Council approved capital projects carried forward.	N/A	N/A	N/A

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<b>Reserve</b>	<b>Purpose</b>	<b>Contributions</b>	<b>Withdrawals</b>	<b>Minimum \$ Balance</b>	<b>Maximum \$ Balance</b>	<b>Special Reporting Requirements</b>
Election	To finance expenses related to the municipal election, avoiding disproportionate burden on the tax levy in an election year.	Annual contribution from the operating budget based on estimated annual average election costs.	Municipal election related expenditures.	N/A	N/A	Analysis of estimated costs of next municipal election to ensure budgeted transfers over 4 years will be sufficient to fund the costs.
Event Hosting	To accumulate funds to bid for, host and support major sporting events, multi-sport games and other significant events.	Organizations receiving financial support from the Corporation to host events may also contribute a portion of their net revenues to this Reserve as per the Corporation's new Event Legacy Policy.	Costs to bid for, host and support major sporting events, multi-sport games and other significant events.	N/A	N/A	N/A

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<b>Reserve</b>	<b>Purpose</b>	<b>Contributions</b>	<b>Withdrawals</b>	<b>Minimum \$ Balance</b>	<b>Maximum \$ Balance</b>	<b>Special Reporting Requirements</b>
Fleet & Equipment Replacement	To fund the replacement of fleet and equipment capital purchases.	Funds from the sale of surplus used fleet and equipment.	Replacement fleet and equipment capital purchases.	N/A	N/A	N/A
Insurance	To provide a contingency for the insurance operating budget due to fluctuations in insurance claims and premiums.	Any annual favourable variance in the Insurance claims and premiums operating budgets.	Any annual unfavourable variance in the insurance claims and premiums operating budgets.	2 years worth of current year insurance claims budget.	4 years worth of current year insurance claims budget.	N/A
Legal Fees	To provide a contingency for non-insured legal claims operating budget due to fluctuations in non-insured legal claims.	Any annual favourable variance in the non-insured legal claims operating budget.	Any annual unfavourable variance in the non-insured legal claims operating budget.	1 year worth of current year non-insured legal claims operating budget.	3 years worth of current year non-insured legal claims operating budget.	N/A

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<b>Reserve</b>	<b>Purpose</b>	<b>Contributions</b>	<b>Withdrawals</b>	<b>Minimum \$ Balance</b>	<b>Maximum \$ Balance</b>	<b>Special Reporting Requirements</b>
Stabilization	To provide for year to year variances in the tax-supported operating budget by providing a source of funding to offset uncontrollable or unanticipated costs, or decreased revenues that impact tax supported operating budgets.	<p>Tax supported year-end surplus.</p> <p>Dividends as outlined in the Tbaytel Dividend Policy.</p>	<p>Tax supported year-end deficit.</p> <p>Funding should only be utilized where the impact of such changes cannot be accommodated through operating budgets.</p>	Uncommitted balance of 4.0-5.0% of the prior year's tax levy.	N/A	N/A

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<b>Reserve</b>	<b>Purpose</b>	<b>Contributions</b>	<b>Withdrawals</b>	<b>Minimum \$ Balance</b>	<b>Maximum \$ Balance</b>	<b>Special Reporting Requirements</b>
Tax Assessment Appeals	To provide funds for the contingent exposure to outstanding tax assessment appeals.	Any overall net favourable variance of the following accounts: tax write-off accounts, provisions for assessment appeals, penalties and interest on taxes and payments in lieu of taxes.	Tax Assessment Appeal costs.	\$5.0 million	\$7.0 million	N/A
Winter Control Roads	To provide funds for Roads winter control expenditures.	Any annual favourable variance in the Roads winter control operating budget.	Any annual unfavourable variance in the Roads winter control operating budget.	25% of the current year Roads winter control budget.	75% of the current year Roads winter control budget.	N/A

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<b>Reserve</b>	<b>Purpose</b>	<b>Contributions</b>	<b>Withdrawals</b>	<b>Minimum \$ Balance</b>	<b>Maximum \$ Balance</b>	<b>Special Reporting Requirements</b>
Working Capital	To provide working funds for capital expenditures to offset outstanding taxes and/or external capital contributions.	N/A	Capital expenses incurred before property taxes or external capital contributions are collected.	N/A	N/A	N/A