

THE CORPORATION OF THE MUNICIPALITY OF POWASSAN

BY-LAW NO. 2023-21

Being a By-law to establish a Reserve and Reserve Funds Policy and a Surplus Management Policy

WHEREAS Section 11(2) of the Municipal Act, 2001, c. 25, as amended, provides that a municipality may pass bylaws respecting the financial management of the municipality;

AND WHEREAS Section 417 of the Municipal Act, 2001, S. O. 2001, c.25 and amendments thereto, allows a municipality to provide for the establishment or maintenance of reserve funds for any purpose for which it has authority to spend money;

AND WHEREAS the Council of the Municipality of Powassan deems it expedient to establish consistent principles, standards, and guidelines for the maintenance, management, and accounting of reserves and reserve funds and operating surpluses;

NOW THEREFORE the Council of the Municipality of Powassan hereby enacts as follows:

1. THAT the Reserve and Reserve Fund Policy, is hereby attached as Schedule "A" and forming a part of this Bylaw.
2. THAT the Surplus Management Policy is hereby attached as Schedule "B" and forming a part of this Bylaw.
3. THAT any other Bylaws or provisions in other Bylaws found to be inconsistent with this Bylaw are hereby deemed to be repealed.
4. THAT this By-law shall come into force and take effect on the final passing thereof.

READ A FIRST, SECOND and THIRD TIME, AND FINALLY PASSED in open Council this 19th day of September, 2023 for the immediate wellbeing of the Municipality.



MAYOR



ACTING CLERK

Schedule "A"



Policy & Procedure Manual

POLICY: Reserve and Reserve Funds Policy	RESOLUTION NUMBER: 2023-261	DATE PASSED: September 5, 2023
EFFECTIVE DATE: September 19, 2023	REVIEW DATE: January 1, 2024	AUTHORITY: Treasurer

1. Policy Statement

The Municipality of Powassan is committed to long-term financial sustainability and sound financial stewardship. Reserves and reserve funds are an essential element of long-term financial planning, and a necessary tool for balancing lasting fiscal stability with current level of service demands.

2. Purpose and Objectives

The purpose of this Policy is to establish the framework by which reserves and reserve funds will be managed and administered.

Through this Policy, the Municipality aims to:

- Adhere to all applicable statutory requirements.
- Promote long-term financial stability and flexibility.
- Plan for the budget impact and financing of major capital projects.
- Smooth tax and water rate increases over time.
- Provide flexibility to address unusual or unanticipated deviations from budget.
- Ensure liquidity to meet annual cash flow requirements.
- Reduce reliance on long-term debt.

3. Definitions

Discretionary Reserve Fund: Monies set aside for a specific purpose by Council and legislated by municipal By-law. If Council should decide to spend the money for purposes other than what it was originally intended for, then a new By-law must be passed under section 417(4) of the Municipal Act.

Obligatory Reserve Fund: Monies set aside and legally restricted by provincial legislation, a municipal By-law, or agreement. The funds are raised for a specific purpose and cannot be used for any other purpose.

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. Reserves do not generally receive an annual interest allocation.

Reserve Fund: Monies set aside for a specific purpose as required by provincial legislation, a municipal By-law, or agreement. Reserve Funds receive an interest allocation on a monthly basis, determined by the closing fund balance. Reserve Funds are comprised of both Discretionary and Obligatory Reserve Funds.

4. Establishment and Modification

Discretionary Reserve Funds must be established by Council through By-law.

Reserves can be established through the following processes:

1. Inclusion in the annual operating or capital budget which is approved by Council.
2. Through resolution of Council, detailing the purpose of the reserve, source of funding, method of investment, and future disbursement for the funds allocated.
3. By direction of the Municipal Treasurer.

If the Treasurer exercises the delegated authority to establish a reserve, they must report to Council, as soon as reasonably practicable, the following:

- a) The identified need for the reserve being created.
- b) The target funding level, including a minimum and maximum reserve balance.
- c) Contribution sources and projected future disbursements.

5. Investment

Reserves and reserve funds may be invested for a term that will not exceed its expected date of need. Applicable funds shall be invested in accordance with the Municipality's Investment Policy. Interest earned on reserve funds shall be recognized as an increase in the balance of each specific reserve fund.

6. Contributions to/Withdrawals from Reserves and Reserve Funds

Contributions to/withdrawals 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:

- a) Direct contributions to Obligatory Reserve Funds.
- b) Transfers that are the result of the Surplus Management Policy, or all other Council-approved By-laws or resolutions.
- c) Transfers between reserves or reserve funds, based upon adequacy analyses or other related information at the discretion of the Treasurer.
- d) Transfers to establish a reserve that has been created by directive of the Treasurer and/or Council.

7. Temporary Borrowing

Temporary borrowing of reserve funds shall be permitted to temporarily finance capital and/or operating cash flow deficiencies to avoid external borrowing costs, provided that the following conditions are met:

- a) Borrowing must not adversely affect the intended purpose of the reserve fund.
- b) A repayment plan must be established and documented to replenish the borrowed funds within a reasonable timeframe.
- c) Interest will be applied to any outstanding amounts borrowed, at the interest rate posted on the Municipality's general operating account.
- d) Any legislative requirements are adhered to.

Interest on any internal borrowing will be calculated and applied annually, based on the interest rate as of December 31 and the average monthly outstanding balance.

It is the responsibility of the Treasurer to determine the need for temporary borrowing of reserve funds, and to establish the terms for repayment. If the repayment period is anticipated to be longer than two (2) years, this will require Council approval by By-law.

Borrowing from obligatory reserve funds is prohibited.

8. Closure of Reserves and Reserve Funds

A reserve or discretionary reserve fund shall be closed where the purpose(s) for which it was created have been accomplished, or if, in the determination of the Treasurer, the reserve or discretionary reserve fund is no longer necessary.

Any reserve or discretionary reserve fund identified for closure shall be reported to Council for review and approval. A resolution shall be required, and in the case of a discretionary reserve fund, the establishing By-law shall be repealed. The report to Council shall include, at a minimum, recommendations regarding the timing of closure and allocation of any remaining funds.

9. Target Balances

Methodologies for calculating targets are specific to each reserve or reserve fund, however consideration will be given to the following:

- a) Purpose of fund (i.e. operating or capital)
- b) Certainty of end needs (i.e. for contingent liability or long-term asset replacement)
- c) Economic factors (inflation, interest rates, cyclical pressures)
- d) Industry/Government/Accounting standards
- e) Multi-year forecast of contribution and projected usage

The target for each reserve and reserve fund is identified in Appendix I of this Policy. The Treasurer will review the targets annually and propose changes to the target levels as required.

10. Responsibilities and Standard of Care

The Treasurer shall:

- a) Have the overall authority for all reserves and reserve funds managed by the Municipality.
- b) Develop and update this policy as necessary and present changes to Council.
- c) Ensure that the principles and requirements contained in this policy are applied consistently across all departments.
- d) Perform the transfers to and from reserves and reserve funds.
- e) Establish targets for reserve and reserve fund levels and recommend strategies to maintain the adequacy of reserve levels.
- f) Report to Council the reserve balances and forecast as part of the annual budget approval process.

Municipal Council shall:

- a) In accordance with Section 224 of the *Municipal Act 2001*, 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.
- b) Approve transactions to and from reserves and reserve funds through the budget process or by specific resolutions and by-laws.

11. Reporting Requirements

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

- a) Annual Audited Financial Statements- shall include a statement of financial position, financial activities, and changes in fund balances for reserves and reserve funds.
- b) Reserve and Reserve Funds Report- an annual report comparing existing fund balances to target objectives, forecasting fund balances and transfers over the capital planning period, evaluating the adequacy of target balances, and considering the establishment of new, and/or modification or closure of existing reserves and reserve funds.
- c) Annual Budget Report- annual contributions to, or appropriations from, reserves shall be identified as part of the annual budget approval process.
- d) Annual or other periodic reporting for obligatory reserve funds as required.

12. Review

This Policy shall be presented to Council for review and update, if applicable, every four (4) years, in the first year of each elected Council, or as deemed necessary by Council or the Treasurer.

APPENDIX I – RESERVES AND RESERVE FUNDS

Reserve Name	Purpose	Source(s) of Funding	Target Calculation	Target Balance
Obligatory Reserve Funds				
Gas Tax Reserve Fund	Revenues received from the Federal Gas Tax Fund to support local capital infrastructure priorities.	Funding as provided by agreement with the Government of Canada and AMO. Interest earned on bank balances.	n/a	n/a
OCIF Reserve Fund	Revenues received from the Ontario Community Infrastructure Fund to support local capital infrastructure priorities.	Funding as provided by agreement with the Province of Ontario. Interest earned on bank balances.	n/a	n/a
Discretionary Reserve Funds				
EIDES Reserve Fund	To provide funding to specified agencies under the Boarding Home Contract Program.	Funds previously provided by the Province of Ontario or agency thereof.	n/a	\$50,000
Wastewater Capital Reserve Fund	To fund maintenance and replacement of wastewater capital infrastructure.	Annual transfer from operating budget and uncommitted surpluses from completed projects.	5% of replacement costs as per the Asset Management Plan.	\$554,000
Water Capital Reserve Fund	To fund maintenance and replacement of water capital infrastructure.	Annual transfer from operating budget and uncommitted surpluses from completed projects.	5% of replacement costs as per the Asset Management Plan.	\$701,000

Water/Wastewater Rate Stabilization Reserve Fund	To meet emergency and unplanned funding needs for Water and Wastewater operations to avoid operating deficits or rate fluctuations.	Funds transferred from water and wastewater operating surpluses.	25% of annual gross operating expenditures.	\$90,000
Reserves				
Election Reserve	To amortize the cost of a municipal election over four years.	Annual transfer from the operating budget equal to 25% of the target balance.	Inflated cost of previous election.	\$25,000
Gravel Pit Closure Reserve	To fund the future rehabilitation of gravel pits owned by the Municipality.	Annual transfer from the operating budget calculated as 2% of the prior year reserve balance.	Discounted present value of future closure and post-closure cash flows.	\$62,000
Infrastructure Renewal Reserve	To provide funds for the replacement and rehabilitation of Municipal infrastructure.	Annual transfer from the operating budget, calculated by dividing the purchase price of all assets financed through the reserve by half of their amortization period until the balance is repaid. Year-end surplus allocation; proceeds from sale of surplus assets; 2% of all rental fee revenues earned in the fiscal year.	One year of annual capital requirement based on current replacement costs as per the Asset Management Plan.	\$2,930,000
Landfill Closure Reserve	To manage the liabilities associated with the remediation of contaminated lands.	Annual transfer from the operating budget equal to the change in liability during the previous fiscal year.	Discounted present value of future closure and post-closure cash flows.	\$289,000
Operating Contingency Reserve	To provide sufficient liquidity to offset extraordinary and unforeseen corporate	Annual transfer from the operating budget and year-end surplus allocation.	10% of annual gross operating expenditures.	\$536,000

	<p>expenditures and mitigate fluctuations arising from one-time operating budget impacts.</p>			
<p>Working Capital Reserve</p>	<p>To provide cash flow and sufficient liquidity to fund general operations without generating a need to use short-term borrowing.</p>	<p>Annual transfer from the operating budget and year-end surplus allocation.</p>	<p>25% of annual gross operating expenditures.</p>	<p>\$1,340,000</p>

Schedule "B"



Policy & Procedure Manual

POLICY: Surplus Management Policy	RESOLUTION NUMBER: 2023-261	DATE PASSED: September 5, 2023
EFFECTIVE DATE: September 19, 2023	REVIEW DATE: January 1, 2024	AUTHORITY: Treasurer

1. Policy Statement

The Municipality of Powassan is committed to using prudent financial management techniques in its annual and long-term budgeting practices.

2. Purpose

The purpose of this Policy is to establish the priority framework for the allocation of any operating surpluses and funding for any operating deficits.

3. Definitions

3.1 **Deficit:** When there is an excess of expenditures over revenues.

3.2 **Property Tax Supported Budget:** a budget that includes property taxes as a primary source of revenue to fund Municipal programs and services.

3.3 **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.

3.4 **Reserve Fund:** Monies set aside for a specific purpose as required by provincial legislation, a municipal By-law, or agreement.

3.5 **Surplus:** When there is an excess of revenues over expenditures.

3.6 **Water/Wastewater Rate Supported Budget:** A budget to fund services exclusively related to the distribution of potable water, and collection and treatment of wastewater through rates charged to users of the system.

4. Guiding Principles

4.1 All surpluses and deficits shall be treated as transitory in nature.

- 4.2 The year-end operating surplus or deficit for the Property Tax Supported Budget and Water/Wastewater Rate Supported Budget will only be allocated (surplus) or funded (deficit) within the operations and reserves/reserve funds of each respective budget.

5. Property Tax Supported Budget- In a Year of Surplus

- 5.1 The Treasurer, or designate, is authorized to allocate any surplus arising in the Property Tax Supported Budget in the following proportions:
- 5.1.1 An amount to the Infrastructure Renewal Reserve equalling any surplus balance arising from the General Capital Budget.
 - 5.1.2 Per Provincial Bill 124, any surplus arising from building department activities shall be allocated in full to a building permit reserve.
 - 5.1.3 50% of any operating surplus shall be contributed to the Working Capital Reserve, not to exceed the reserve target balance as established through the Reserve and Reserve Fund Policy.
 - 5.1.4 25% of any operating surplus shall be contributed to the Operating Contingency Reserve, not to exceed the reserve target balance as established through the Reserve and Reserve Fund Policy.
 - 5.1.5 Any remaining operating surplus shall be contributed to the Infrastructure Renewal Reserve.

6. Water/Wastewater Rate Supported Budget- In a Year of Surplus

- 6.1 The Treasurer, or designate, is authorized to allocate any surplus arising in the Water/Wastewater Rate Supported Budget in the following proportions:
- 6.1.1 An amount to the Water Capital Reserve Fund equalling any uncommitted surpluses from water capital projects.
 - 6.1.2 An amount to the Wastewater Capital Reserve Fund equalling any uncommitted surpluses from wastewater capital projects.
 - 6.1.3 Any remaining operating surpluses shall be contributed to the Water/Wastewater Rate Stabilization Reserve Fund.

7. Property Tax Supported Budget- In a Year of Deficit

- 7.1 The Treasurer, or designate, is authorized to withdraw any deficit arising in the Property Tax Supported Budget from the Operating Contingency Reserve or, if an insufficient balance is available, the remainder thereof from the Infrastructure Renewal Reserve.

8. Water/Wastewater Rate Supported Budget- In a Year of Deficit

- 8.1 The Treasurer, or designate, is authorized to withdraw any deficit arising in the Water/Wastewater Rate Supported Budget from the Water/Wastewater Rate Stabilization Reserve Fund or, if an insufficient balance is available, the remainder thereof from the Water Capital Reserve Fund.

9. Responsibilities and Standard of Care

- 9.1 The Treasurer shall:

- a) Have the overall authority for all reserves and reserve funds managed by the Municipality.
- b) Develop and update this policy as necessary and present changes to Council.
- c) Ensure that the principles and requirements contained in this policy are applied consistently across all departments.
- d) Perform the transfers to and from reserves and reserve funds.

10. Reporting Requirements

The Municipal Treasurer, or designate, shall report annually to Council all transfers completed by virtue of this Surplus Management Policy.

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.