



Staff Report T2025-09

Committee 2025-05-26

Council 2025-06-09

Amendments ☐

Submitted To: Committee of the Whole | Council
Submitted By: Jennifer Graham, Director, Finance/Treasurer
Prepared By: Jennifer Graham, Director, Finance/Treasurer
Subject: Statement of Reserves and Reserve Funds

Recommendation

THAT Staff Report T2025-09, **Statement of Reserves and Reserve Funds**, be received; and,

THAT Council re-balance the General reserve by transferring \$1,727,344 to the Lifecycle Replacement Reserve Fund.

Amendments

None.

1. Executive Summary

This report provides an overview of the Town's reserves and reserve funds, which are critical tools for ensuring financial stability and supporting long-term planning. Reserves help manage unexpected costs and stabilize the tax levy, while reserve funds are set aside for specific purposes and generate interest to support those purposes.

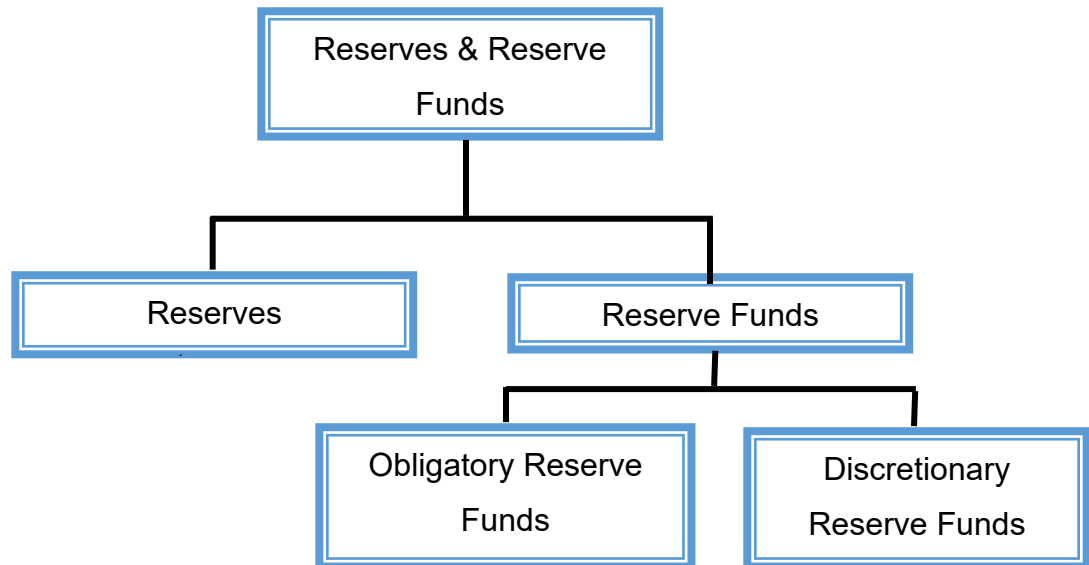
2. Analysis

Background

Overview of Reserve and Reserve Funds

Reserves and Reserve Funds are established by Council to promote long term financial sustainability and planning. These financial tools allow the Town to accumulate funds for future obligations, cushion against unexpected shifts in revenues or expenditures,

support one-time investments, and reduce fluctuations in the tax rate caused by cyclical economic conditions.



Reserves

Reserves are allocations of accumulated net revenue that are not associated with a specific asset or obligation. While they are generally used to supplement or support activities funded from general revenues, they do not earn interest. Reserves are typically utilized to address budgetary fluctuations or other unforeseen needs. Examples of reserves include:

- Capital Contingency Reserve
- Municipal Election Reserve
- Operating Contingency Reserve

Reserve Funds

Reserve Funds are segregated for specific purposes. They are created either through municipal by-laws (discretionary) or as required by federal or provincial legislation (obligatory). Unlike reserves, reserve funds earn interest, which is allocated directly to the respective fund. Reserve funds are categorized as follows:

- **Obligatory Reserve Funds:**

These funds are mandated by legislation or financial agreements for a defined purpose. Examples include:

- Development Charge Reserve Funds
- Canada Community Building Fund Reserve Fund
- Building Stabilization Reserve Fund.

- **Discretionary Reserve Funds:**

Established by Council to address specific liabilities or future expenditures. An example is the Lifecycle Replacement Reserve Fund.

Statement of Reserves and Reserve Funds

The Statement of Reserves and Reserve Funds is attached as Appendix A.

Reserves

Reserves decreased from \$6.17M to \$4.53M in 2024. The most significant transaction was the proposed staff transfer from the General Reserve to the Lifecycle Replacement Reserve Fund, discussed further in the "Adequacy" section.

Reserve Funds

Obligatory reserve funds decreased from \$10.63M to \$9.12M, primarily due to capital investments funded through Canada Community Building Reserve Fund (formerly Federal Gas Tax) including:

- Hens and Chickens bridge rehabilitation,
- Sunset Point raised crosswalk,
- Traffic signals at High Street and Findlay Drive,
- Continuation of LED lighting, and
- Warm pool cover installation.

Additionally, the Building Department Stabilization Reserve Fund also saw net outflow to support the expenditures in the Ontario Building Code service.

Discretionary reserve funds increased from \$64.66M to \$68.42M driven by surplus allocation and the proposed rebalancing of the General Reserve to the Lifecycle Reserve Fund.

Surplus Allocation

As outlined in Staff Report T2025-06 Draft Financial Review, the unaudited 2024 surplus is \$1.55M. The Surplus Management Policy, included in Appendix C Reserve and Reserve Fund Policies, states that:

The Treasurer is authorized to allocate any year-end operating surplus in the following manner:

- a) Transfer to Capital Contingency Reserve, General Reserve, Operating Contingency Reserve and the Working Capital Reserve Fund sufficient funds to maintain their target balances.
- b) Transfer 10% of the remaining surplus to reduce the outstanding balance of internal loans.
- c) Transfer 60% of the remaining surplus to the Lifecycle Replacement Reserve Fund.
- d) Transfer 10% of the remaining surplus to the 10% Non DC Growth Reserve Fund.
- e) When a reserve fund reaches and maintains the target balance, remaining surplus funds shall be transferred in proportion to the remaining funds that are not at their targeted limit.

Surplus funds have been allocated based on the above as follows and shown in Appendix A: Statement of Reserves and Reserve Funds:

- (a) Capital Contingency, General Reserve, Operating Contingency reserve at target. \$156,386 has been transferred to the Working Capital Reserve to maintain target balance (calculated using midpoint between 5% of own source revenues and a \$750,000 floor).
- (b) No internal loans outside of Short-Term Accommodation borrowing from Municipal Parking Reserve. Municipal Parking reserve exceeds target balance.
- (c) \$1,398,629 has been transferred to Lifecycle Reserve Fund, exceeding the noted 60% allocation as (d) is no longer relevant as the 10% Non DC Growth Reserve

has been dissolved per Council and (e) the Lifecycle Reserve Fund was well below target before surplus allocation.

Adequacy of Reserves and Reserve Funds

The Reserve and Reserve Fund Management Policy states that the Town will strive to maintain reserves and reserves funds that promote financial stability and flexibility within a target range of 5% to 15% of own source revenues. Calculation of target balances and notes for each reserve and reserve fund is included as Appendix B: Adequacy of Reserves and Reserve Funds. There are several reserves where no known target balance is known. These will be reviewed as part of the work being undertaken in the Long Term Strategic Financial Plan in the financial framework section. Significant deviations to target include:

Reserves

- **Municipal Election:** \$40K under target due to gradual contributions ahead of election year.
- **Public Works:** \$148K under target after major 2024 purchases; to be replenished through internal allocations in 2025.

Reserve Funds

- **Building Dept. Stabilization:** \$947K under target due to decreased building permit activity and is insufficient to meet 24 months of operations. The reserve fund remains a vital tool for stabilizing Building Division operations and ensuring uninterrupted service delivery during fluctuations in permit activity. It is funded through annual permit fee surpluses and supports the division's ability to respond quickly as construction volumes rebound. The fact that the reserve fund continues to remain under target can be tied to construction activity remaining lower than expected due to high interest rates, rising construction costs, and broader economic uncertainty. While non-residential construction shows some growth, overall building investment has slowed. Both federal and municipal governments are introducing financial support and legislation to accelerate development approvals and encourage housing starts. These efforts are expected to increase building permit activity in the near future. To address the reserve shortfall, staff are reviewing the building by-law and fee structure in 2025.

Other measures being explored include Mutual Aid agreements and potential staff redeployment to reduce reliance on the reserve fund during slower periods.

- **Lifecycle Replacement:** \$339K under target; short of 2-year capital renewal funding needs. This will be explored further in detail with completion of the financing strategy for Asset Management Policy due in July of 2025. Note this is after the staff proposed transfer and rebalance from General Reserve. Should Council not approve transfer, the shortfall will exceed \$2M.
- **Municipal Parking:** \$1.9M over target; significantly exceeds established reserve level.
- **Water:** \$4.6M over target; exceeds balance in the approved rate study. Updated study will be completed in 2027.
- **Wastewater:** \$5.1M over target; exceeds balance in the approved rate study. Updated study will be completed in 2027.
- **Waterfront Master Plan:** \$3.0M over target; reserve exceeds intended funding level. Significant capital investment projects are expected and this reserve will be fully utilized.

Options

Staff recommend transferring \$1,727,344 from the General Reserve to the Lifecycle Replacement Reserve Fund to:

- Restore the General Reserve to its target balance, and to,
- Significantly reduce the Lifecycle Replacement Reserve Fund shortfall.

Financial Impacts

The Town's reserves and reserve funds play an essential role in ensuring financial stability and flexibility. They help manage unexpected costs, reduce tax fluctuations, and prepare for long-term needs like infrastructure repairs. While some areas are overfunded and others underfunded, the Town will focus on finding the right balance to meet current and future needs while keeping services reliable and sustainable for the community.

Conclusion

Staff remain committed to the development of a Long-Term Strategic Financial Plan. As part of this process, all reserves and reserve funds will be reviewed to ensure appropriate structure, targets, and policy alignment with the Town's financial goals.

3. Input from Other Sources

Reviewed by Department Heads on May 20, 2025.

4. Applicable Policy or Legislation

Municipal Act

5. Considerations

2024-2028 Community Based Strategic Plan: Progress towards achieving CBSP Goal

☐ Sustainable ☐ Connected ☐ Vibrant ☒ Responsible

☐ Services adjusted if any Not Applicable

☐ Climate Change / Sustainability: Not Applicable

☐ Communication / Engagement: Not Applicable

☐ Accessibility / Equity, Diversity, Inclusion: Not Applicable

☐ Registered Lobbyist(s) relating to content: [\[add content and meeting dates\]](#)

Next steps and future action required following endorsement:

None.

6. Appendices and Other Resources

Appendix A: Statement of Reserves and Reserve Funds

Appendix B: Adequacy of Reserves and Reserve Funds

Appendix C: Reserve Policies

7. Approval

Prepared By:

Jennifer Graham, CPA CA, Director, Finance/Treasurer

Reviewed By:

[Name, Title]

CAO Comments:

☒ Endorsed by CAO Skinner on May 21, 2025 to proceed to COW.