

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF NOVEMBER 20, 2012

Item 2, Report No. 11, of the Finance and Administration Committee, which was adopted without amendment by the Council of the City of Vaughan on November 20, 2012.

2 CONSOLIDATED RESERVE POLICY & RECOMMENDATIONS

The Finance and Administration Committee recommends:

- 1) That the recommendation contained in the following report of the Commissioner of Finance & City Treasurer and the Director of Budgeting & Financial Planning, dated October 29, 2012, be approved; and**
- 2) That the presentation by the Director of Budgeting & Financial Planning, and C2, presentation material, be received.**

Recommendation

The Commissioner of Finance & City Treasurer and the Director of Budgeting & Financial Planning, in consultation with the City Manager and the Director of Internal Audit recommend:

1. That the Consolidated Reserve Policy be approved and supersede other prior reserve policies; and
2. That the recommended additional reserve policy adjustments for consideration be approved; and
3. That the realignment of infrastructure reserve balances as outlined in this report be approved; and
4. That the redistribution of amounts between specific reserves as outlined in this report be approved.

Contribution to Sustainability

Reserve funds play a very important role in the City's finances and provide a strong indicator of the City's overall financial health. One of the key attributes of financial sustainability is appropriate reserve fund levels. Adequate reserve balances provide financial flexibility, mitigate risk, weather uncertainty, and ensure the ongoing financial stability of the Corporation. Reserves are also leveraged to sustain City infrastructure, support programs and form an important part of the City's financial strategies. The attached policy provides reserve fund guidance and supports financial sustainability.

Economic Impact

There are no economic impacts as a result of this report.

Communication Plan

Upon approval, the Consolidated Reserve Policy will be incorporated within the City of Vaughan's policy manual. In addition, this policy will support the City's budget process and be referenced in future budget guidelines, instructions and deliberations.

Purpose

To obtain Council's approval of the Consolidated Reserve Policy, additional reserve policy adjustments, the realignment of infrastructure reserve balances, and the redistribution of specific reserve amounts.

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Background – Analysis and Options

1. Consolidated Reserve Policy

The majority of the City's reserve policies have existed for over a decade and therefore a review was in order. In addition, existing reserves policies are currently supported by separate by-laws, council items, and traditional practices and it was necessary to consolidate all reserve policies under one policy to ensure a consistent framework and a central reference document. The policy is intended to assist in the administration of reserve funds and establish consistent guidelines and standards. The key aspects of current Council approved policies and practices were incorporated into the new Consolidated Reserve Policy framework.

The Consolidated Reserve Policy consists of two sections. The first section is the Policy Section which provides an overview and guidance on general principles and topics that apply to all reserve funds. These topics include:

- Reserve Fund Classifications and Types
- Guiding Principles
- Reserve Contributions
- Operating Surplus and Reserve Balances Exceeding Target
- Interest
- Withdrawal/Transfers
- Temporary Reserve Borrowing
- Reserve Levels and Targets
- Reserve Development or Policy Amendments
- Monitoring and Reporting
- Policy Review

The second section titled "Policy Appendix" provides more detailed guidance related to specific reserve funds. Due to the number of reserve funds, it was necessary to organize reserves into categories and types. For each category and type, an overview was developed and, where possible, similar policy traits were consolidated and summarized. Illustrated below are the categories and types supporting the policy:

Discretionary Reserve Funds

- A. Sustainability
- B. Infrastructure Renewal
- C. Corporate Reserve
- D. Special Purpose

Obligatory Reserve Funds

- E. City-Wide Development Charge
- F. Area Specific Development Charge
- G. Restricted Grant Funding

Where applicable, for each reserve the following detail was illustrated:

- Purpose and intended use
- Annual withdrawals/transfers
- Reserve min/max targets
- Funding sources
- If required, specific reporting or guiding legislation references

Specific Policy detail related to the above is provided as Attachment # 1 – Consolidated Reserve Policy.

2. Recommended Additional Reserve Policy Adjustments for Consideration

Given the time that has elapsed since the City's last review of reserves, it is appropriate to reflect on existing reserves and consider opportunities for improvement and efficiency. Below are recommended actions:

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A. Create an Innovation Reserve:

Purpose: A cornerstone of an effective organization is its ability to identify and implement innovative opportunities.

Intended Use/Limitations: This reserve is intended to provide seed funding for innovative value propositions, which require upfront investment. Eligible projects will require a business case including payback and recovery metrics. This is to ensure there is accessible funding for future projects. (If adopted, a formal process for accessing these funds through annual budgets will be developed)

Annual withdrawals – Determined through the budget process.

Target: A maximum of \$5 million

Funding Source: Year-end city operating surplus. *(Initial funding for this reserve is discussed in a later section of this report).*

B. Create an Information Technology Asset Replacement Reserve:

Purpose: Information Technology assets are very similar to the other City assets and should be treated consistently by reserving funds for their eventual repair and replacement.

Intended Use/Limitations: To fund repair and replacement costs associated with City information technology infrastructure, including computers, telephones, and central computing items (e.g. networks, servers, etc.). Software upgrades and computing peripheral devices are excluded.

Target: **a balance equivalent to accumulated amortization for the reserve asset class**

Funding Source: Dedicated annual contributions, and subject to existing policies. *(It is recommended that existing annual funding in the capital from taxation budget, approximately \$1m, be converted to a dedicated reserve contribution).*

C. Expand the Roads Reserve Purpose:

It is recommended the Roads Reserve's intended use be expanded to include relevant road appurtenances, such as streetlights, traffic signals, guardrails, curbs, traffic signals, etc. This will become the primary funding source for these items as Roads and Bridges are primarily funded through debentures and gas tax. Contributions will be review once better forecasting and history is established.

D. Merge the following Reserves:

- Building and Facilities Pre 1999 Reserve and Post 1998 Reserve (ref. # 601170 & 601171). Funds for these reserves are used for the same purpose and tracking projects separately is administratively difficult.
- Uplands Reserve and Uplands Capital Improvement Reserve (ref. # 60195 & 90196). There is an updated agreement and no longer a need to maintain two reserves.
- City-Wide Library and City Wide Material Reserves (ref. # 620040 & 62050). Merging these reserves together is consistent with the development charge fee and collection practices. Allocations and component tracking can be conducted internally, similar to other development reserves.

E. Operating Surplus Allocation:

The current policy for operating surplus allocation specifies that, after the first \$2.5 million of the annual operating surplus has been applied to the following budget year to reduce pressure on the tax rate, the balance of any surplus will be allocated on a 50/50 basis to the Tax Rate Stabilization Reserve and the Working Capital Reserve.

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Staff now recommend that the list of priority reserves eligible for an allocation of annual operating surplus be expanded to include the Post Retirement Reserve, Infrastructure Reserves and the Innovation Reserve. This methodology will allow flexibility to address changing priorities and assist in moving the individual reserve balance towards the target level.

F. Remove Inactive Reserve Accounts:

After conducting a review, there were a number of zero balance reserves resulting from inactivity or their initial purpose was achieved. As a result it is recommended the following reserves be removed.

Transit Reserve (Ref # 60160)	Vaughan Hospital Reserve (Ref # 61033)
Curb Cuts Reserve (Ref # 61018)	Pine Valley Sanitary Relief (Ref # 63000)
PD6 Watermain (Ref # 63020)	Western Maple Sub Trunk Sanitary (Ref # 63030)
Maple Collector (Ref # 63050)	Western Maple Sub Trunk (Ref # 63040)
City Wide- City Hall (Ref # 64000)	Langstaff Road Watermain (Ref # 63100)
City Wide- ITS (Ref # 64010)	Concord Trunk – Segment 1 (Ref # 63151)
City Wide- Financing (Ref # 64020)	Concord Trunk – Segment 2 (Ref # 6315)
Clarence St. Sanitary (Ref # 63010)	

3. Recommended Realignment of Infrastructure Reserve Balances

The identification of infrastructure needs and the resulting infrastructure funding within the City of Vaughan has evolved over time and as a result some asset classes have received different funding contributions. Based on a review of infrastructure reserves, it is apparent there is a level of inequity when comparing life cycle needs vs. available balances. It is therefore recommended for infrastructure reserve balances to be realigned based on their associated proportion of future requirements. Future requirements are based on lifecycle replacement timing and estimate funding needs over the next 5 years. The following table summarizes the findings:

<i>Infrastructure Reserve</i>	<i>2012 Opening Balance</i>	<i>% of 5 yr Spend Est.</i>	<i>*5 yr Spend Est. % \$</i>	<i>Realignment</i>	<i>New Balance</i>	<i>% of 5 yr Spend Est.</i>
Vehicle Replacement	2,410,071	36%	17% 6,647,582	924,345	3,334,416	50%
Fire and Equipment	3,430,191	81%	11% 4,259,455	(1,293,655)	2,136,536	50%
Heritage Fund	470,922	18%	7% 2,582,950	824,682	1,295,603	50%
B&F	13,463,440	82%	41% 16,382,207	(5,246,152)	8,217,289	50%
Parks Infrastructure	128,230	1%	25% 9,806,671	4,790,780	4,919,010	50%
Total	19,902,854	50%	100% 39,678,865	-	19,902,854	50%

** Based on Life Cycle timing estimates*

Note: City Playhouse and Uplands are excluded as they are supported through revenue based contributions.

4. Recommended Redistribution of Specific Reserve Amounts

In reference to the recommended reserve policy, discretionary reserve balances are reviewed in context of the reserve policy targets. Based on this analysis, there is an opportunity to redistribute balances from four reserves. These reserves and associated redistribution amounts are as follows:

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<i>Reserve</i>	<i>Target</i>	<i>\$ to Redistribute</i>
General Working Capital	10% own source revenue	\$ 6,150,000
Tax Rate Stabilization	10% own source revenue	\$ 830,000
Winterization Reserve	1/3 rd of the 4 yr Winter Division annual avg.	\$ 2,600,000
Debenture	*Mitigation Plan/ 10% of debenture costs	\$ 10,750,000
Total		\$ 20,330,000

** Note: A balance remains to mitigate incremental debenture payments, until debenture terms begin to roll (2017/18).*

It is recommended for the above mentioned balances to be allocated to the following reserves:

<i>Reserve</i>	<i>Allocate \$</i>	<i>Comments</i>
Innovation Reserve	\$ 2,500,000	To provide seed funding for new innovative reserve to fund value propositions, which require upfront investment.
Post Employment Benefit Reserve	\$ 9,500,000	This is a growing requirement in the City. Actuarial estimate totals \$66.3m and growing. Current reserve balance is \$11m.
Infrastructure Reserves	\$ 8,330,000	Infrastructure funding is an ongoing concern for most Canadian municipalities. Allocating a portion of this balance to infrastructure reserves will assist in reducing the funding gap.
Total	\$ 20,330,000	

The allocation of the \$8.330m to infrastructure reserves is based on the same logic as the alignment of infrastructure reserve balances.

<i>Reserve</i>	<i>*Adj. Resv. \$</i>	<i>Redistribution</i>		<i>Revised Resv. \$</i>	<i>% of Spend Est.**</i>
Vehicle Replacement	3,334,416	1,395,563	17%	4,729,979	71%
Fire and Equipment	2,136,536	894,211	11%	3,030,746	71%
Heritage Fund	1,295,603	542,253	7%	1,837,856	71%
B&F	8,217,289	3,439,206	41%	11,656,495	71%
Parks Infrastructure	4,919,010	2,058,768	25%	6,977,778	71%
Total	19,902,854	8,330,000	100%	28,232,854	71%

Relationship to Vaughan Vision 2020

The above recommendations are consistent with the City's overarching goal of organizational excellence and specifically relate to financial planning and asset management corporate initiatives.

Regional Implications

There are no Regional implications associated with this report.

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Conclusion

The Budgeting and Financial Planning department have undertaken a review of the City's reserve funds. As a result the following recommendations have been developed for Council consideration, which include:

- An updated and consolidated reserve policy
- Additional reserve policy adjustments for consideration
- Realignment of infrastructure reserve balances
- Redistribution of specific reserve amounts

The above recommendations are consistent with the City's overarching goal of organizational excellence and specifically relate to financial planning and asset management corporate initiatives.

Attachment

Attachment 1 – Consolidated Reserve Policy

Report prepared by:

John Henry, CMA
Director of Budgeting & Financial Planning
Ext. 8348

Jackie Macchiusi, CGA
Capital and Reserve Supervisor
Ext. 8267

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)

CONSOLIDATED RESERVE POLICY & RECOMMENDATIONS**Recommendation**

The Commissioner of Finance & City Treasurer and the Director of Budgeting & Financial Planning, in consultation with the City Manager and the Director of Internal Audit recommend:

1. That the Consolidated Reserve Policy be approved and supersede other prior reserve policies; and
2. That the recommended additional reserve policy adjustments for consideration be approved; and
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Contribution to Sustainability

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Economic Impact

There are no economic impacts as a result of this report.

Communication Plan

Upon approval, the Consolidated Reserve Policy will be incorporated within the City of Vaughan's policy manual. In addition, this policy will support the City's budget process and be referenced in future budget guidelines, instructions and deliberations.

Purpose

To obtain Council's approval of the Consolidated Reserve Policy, additional reserve policy adjustments, the realignment of infrastructure reserve balances, and the redistribution of specific reserve amounts.

Background – Analysis and Options**1. Consolidated Reserve Policy**

The majority of the City's reserve policies have existed for over a decade and therefore a review was in order. In addition, existing reserves policies are currently supported by separate by-laws, council items, and traditional practices and it was necessary to consolidate all reserve policies under one policy to ensure a consistent framework and a central reference document. The policy is intended to assist in the administration of reserve funds and establish consistent guidelines and standards. The key aspects of current Council approved policies and practices were incorporated into the new Consolidated Reserve Policy framework.

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Relationship to Vaughan Vision 2020

The above recommendations are consistent with the City's overarching goal of organizational excellence and specifically relate to financial planning and asset management corporate initiatives.

Regional Implications

There are no Regional implications associated with this report.

Conclusion

The Budgeting and Financial Planning department have undertaken a review of the City's reserve funds. As a result the following recommendations have been developed for Council consideration, which include:

- An updated and consolidated reserve policy
- Additional reserve policy adjustments for consideration
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- Redistribution of specific reserve amounts

The above recommendations are consistent with the City's overarching goal of organizational excellence and specifically relate to financial planning and asset management corporate initiatives.

Attachment

Attachment 1 – Consolidated Reserve Policy

Report prepared by:

John Henry, CMA
Director of Budgeting & Financial Planning
Ext. 8348

Jackie Macchiusi, CGA
Capital and Reserve Supervisor
Ext. 8267

Respectfully submitted,

Barbara Cribbett, CMA
Commissioner of Finance & City Treasurer

John Henry, CMA
Director of Budgeting & Financial Planning

CITY OF VAUGHAN POLICY MANUAL

SECTION: Finance and Corporate Services		POLICY NO.: XXXX
DEPARTMENT: Budgeting & Financial Planning	SUBJECT: Consolidated Reserve Policy	

PURPOSE

Reserve funds play a very important role in the City's finances and provide a strong indicator of the City's overall financial health. For this reason, the management of reserve funds is vitally important and therefore the primary basis for this policy. The policy is intended to establish consistent guidelines and standards, which will assist in the administration of reserve funds in a responsible and consistent manner.

The Reserve Fund policy consists of two sections. The first section is the Policy Section which provides an overview and guidance on general principles and topics that apply to all reserve funds. The second section titled "Policy Appendix" provides more detailed guidance related to specific reserve funds.

SCOPE

This policy applies to all City departments and local boards of the Corporation of the City of Vaughan.

BACKGROUND

The City sets aside funds, collected through various means (i.e. development charges, contributions, dedications, taxation, etc.) for the following intended purposes:

- Capital projects and future expenses
- Corporate legislated liabilities
- Dedications for future purposes
- Contingencies/ unexpected events
- Anticipated significant expenses requiring smoothing over time

Reserve funds form an important part of the City's financial strategies and help the City to ensure the on-going financial stability of the corporation. Reserve funds are closely linked to debentures and investments and although treated separately through policy, they work in conjunction to meet the City's funding requirements, provide financial flexibility and mitigate pressures, all of which impact on the City's overall levy.

Reserve Fund Classifications and Types

Reserve funds are classified into the following two categories:

Reserve funds (Discretionary) – An allocation of funds for when Council wishes to earmark, at their discretion, balances to finance a future expenditure, liability, or other purpose. These reserves may not be referenced to a specific asset and segregation is not required. Discretionary reserves are funded from various sources including, but not limited to, allocated revenues, accumulated surpluses, dedicated contributions, etc. Funding is typically determined during the budget process, unless unanticipated i.e. budget to actual variances, in-year dedications, etc.

The City has established a number of discretionary reserves to help manage municipal finances and protect against the unexpected events. For the purpose of policy development these reserves have been further broken down into the following types:

CITY OF VAUGHAN POLICY MANUAL

SECTION: Finance and Corporate Services		POLICY NO.: XXXX
DEPARTMENT: Budgeting & Financial Planning	SUBJECT: Consolidated Reserve Policy	

- Sustainability Reserves - to protect against risk and uncertainty (i.e. winter, tax rate stabilization, etc.)
- Infrastructure Reserves - to fund the future costs of infrastructure renewal
- Corporate Reserves - to administer future liabilities and operational requirements (i.e. election)
- Special Purpose Reserves - to administer funds for which there is a specific purpose (i.e. cemetery)

Reserve funds (Obligatory) – These funds are prescribed for specific purposes through provincial statute and are required to be segregated from general municipal revenues. In addition, regulations may prescribe specific purposes, contributions, uses, restrictions, etc. Examples of these are:

- Development Charge Reserves - Based on legislation which imposes charges on new development in the City to pay for growth related net capital costs of servicing new development (Development Charges Act, 1997).
- Developer Agreement Reserves - Fees collected from developers at the time the developer agreement is enacted; fees are to be used for specific purposes as outlined in the agreement (i.e. Geodetic Benchmarking, Tree Replacement Fee, etc.)
- Deferred Revenue Reserves – Revenue that is considered a liability on the financial statements until, over time, it becomes relevant to current operations; set aside in an obligatory reserve fund for a specific purpose by legislation, regulation, or agreement (i.e. Building Standards Continuity Reserve, Gas Tax Funding, etc.)

GUIDING PRINCIPLES

One of the key attributes of financial sustainability is appropriate reserve fund levels. Adequate reserve balances allow the City to manage service needs, sustain infrastructure, provide flexibility, mitigate risk and weather uncertainty. To assist the City in managing reserve funds, where appropriate, guidance related to reserve level targets and minimum balances will be incorporated within each individual policy. These are detailed in the Policy Appendix. Balances exceeding target levels may be redirected at the discretion of the Commissioner of Finance/City Treasurer.

The following general principles apply when managing reserve funds.

- 1) Alternative arrangements should be considered before creating a new reserve fund i.e. accommodation within existing reserves, scope expansion, alternate funding arrangement etc.
- 2) If an option exists, discretionary reserve funds are preferable to obligatory reserve funds due to their flexibility.
- 3) Reserves for different purposes shall be separate. Definitions should be specific, but flexibility can be accommodated by incorporating service groupings, like applications, etc.
- 4) Obligatory reserve funds are defined through legislation. Reserve grouping by service, funding source, type, etc. will be developed as permitted.

CITY OF VAUGHAN POLICY MANUAL

SECTION: Finance and Corporate Services		POLICY NO.: XXXX
DEPARTMENT: Budgeting & Financial Planning	SUBJECT: Consolidated Reserve Policy	

GENERAL POLICIES

Reserve funds will be used as defined within the policy, unless otherwise approved by Council. Policy interpretation differences will be resolved by the Commissioner of Finance/City Treasurer.

Reserve Contributions

Reserve contributions and funding sources vary according to the specific reserve funds. Specific direction regarding these contributions and funding sources will be detailed within each reserve fund policy (as outlined in the Policy Appendix).

- Obligatory reserve fund contributions shall be made as prescribed by Federal, Provincial or other statute/agreement (i.e. development charges, developer contributions, government grants, etc.)
- Discretionary reserve contributions are determined through the budget process,
- Discretionary reserve contributions resulting from specified City program annual surplus, as set through policy.

Unless otherwise specified in this policy, the timing of contributions will occur as follows:

- Budgeted contributions to reserve funds shall be transferred upon budget approval
- Contributions based on surplus variances will be transferred at quarterly intervals as required.

Operating Surplus and Reserve Balances Exceeding Target

Should the City be in an overall surplus position at year-end or reserve balances exceed targets, these funds will be distributed within the following parameters:

1. Up to \$2.5 million of any surplus funds will be applied to the following budget year, reducing pressure on the tax rate.
2. That any additional surplus funds or reserve balances in excess of reserve targets be allocated, at the discretion of the Commissioner of Finance/City Treasurer, within the following priority areas and up to the established maximum targets illustrated in the Policy Appendix.
 - Tax Rate Stabilization Reserve
 - Working Capital Reserve
 - Post Retirement Reserve
 - Infrastructure Reserves
 - Innovation Reserves

Contributions based on above will be transferred at year-end.

Interest

All reserves will be interest bearing, unless specified otherwise within this policy. Applicable funds must be invested in accordance with the Municipality's approved investment policy. At quarterly intervals, associated interest will be allocated by applying the quarterly investment rate to individual reserve average actual balances (opening quarter balance + closing quarter balance/2).

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Withdrawal/Transfers

- All withdrawals/transfers shall be authorized through budget, policy or specific Council approval
- Transfers from reserves to other budgets will occur per policy or by Council approval through items or the budget process. Transfers will occur quarterly, as needed, unless specific direction is otherwise provided.
- Under no circumstances should a withdrawal /transfer place a reserve or reserve fund in a negative position
- To maximize interest earning efforts, payments and external transfers will occur no earlier than 5 days before the payment due date, unless favourable payment discount options are available or authorized by the Commissioner of Finance/City Treasurer
- Exceptions to the above are permitted if authorized by Council and/or related legislation.

Temporary Reserve Borrowing

Temporary borrowing to cover a reserve short-term deficit, interim servicing requirements or internal financing is permitted, when justified, adequately supported, and authorized by the Commissioner of Finance/City Treasurer.

However, the following conditions must be met:

- Borrowing will not adversely affect the intended purpose of the reserve
- A plan to repay the reserve within a reasonable time is required
- If applicable, interest at the City's investment rate will be applied to the outstanding amount borrowed, using the same approach illustrated in the interest section.
- Where applicable, legislative requirements may apply. For example, the Development Charges Act permits inter-fund borrowing only between development charge reserve funds and prescribes a minimum interest rate i.e. Bank of Canada prime rate as of the document approval date, updated on the first business day of every January, April, July, and October.

Reserve Levels and Targets

- That total consolidated discretionary reserves be maintained at a level not less than 50% of the City's own source revenue (approximately the City's levy based annual total expenses). Consolidated balances provide an indicator of the City's overall financial strength and ability to sustain periods of economic uncertainty. This target ensures the City continues to be financially well positioned.
- Where required, individual minimum and maximum reserve levels/targets be maintained as set out in the policy appendix. .
- Reserve fund levels will be monitored and reported on a regular basis. Where applicable reserve level target gaps and/or surpluses will be identified and strategies/recommendations will be provided for Council consideration.

Monitoring and Reporting

Reporting of reserves will occur through the following actions:

1. A four year Reserve Fund continuity schedule based on commitments, approved and recognized projects, policy requirements, and projected contributions will be presented as part of each budget process.
2. A year to date budget vs. actual continuity schedule will be included in quarterly variance reports to

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3. As required under development charge legislation, the Commissioner of Finance/City Treasurer will provide Council with a financial statement related to the Development Charge By-law and include information regarding development charge reserve funds. This statement will then be forwarded to the Minister of Municipal Affairs and Housing within sixty days after Council receipt.
4. Year-end audit and financial statements - Balances of reserves, both obligatory and discretionary reserve funds, will be presented with note disclosure and comparative figures.
5. Where required, reporting to Council or other agencies may exist for reserved residual balances related to grants or other contributed funds i.e. (Federal and Provincial Grants).

Reserve fund reporting and monitoring will be centrally administered through the Budgeting and Financial Planning Department with direct input from related City department staff. As required, the Budgeting and Financial Planning Department will make recommendations regarding balance adequacy, target levels, contributions, reserve allocations, etc.

Reserve Development or Policy Amendments

The process to address new reserve development and policy amendments are as follows:

- Step 1: A request, including appropriate justification, support, and financial evidence, is submitted to the Commissioner of Finance/City Treasurer for review and process approval.
- Step 2: Upon approval, a proposed policy amendment based on a standardized template will be drafted by the Finance Department for Council consideration. For new reserves information will be required regarding the purpose, description, intended use, funding source, authorization, target levels, etc.
- Step 3: Policy amendments will be provided to Council for discussion and approval consideration.
- Step 4: Upon Council approval, the Reserve Funds Policy will be update accordingly.

Policy Review

This policy will be reviewed at each new term of Council and as required through the budget process.

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POLICY APPENDIX – SPECIFIC RESERVE FUNDS

Due to the number of reserve funds the City has in place, it is necessary to organize the specific reserve policies by Category and Type. For each category and type an overview will be provided and, where possible, similar policy traits will be summarized. Illustrated below are the categories and types that will form the foundation of this policy.

Discretionary Reserve Funds

- A. *Sustainability*
- B. *Infrastructure Renewal*
- C. *Corporate Reserve*
- D. *Special Purpose*

Obligatory Reserve Funds

- E. *City-wide*
- F. *Area Specific*
- G. *Restricted Grant Funding*
- H. *Other items*

Where applicable, for each reserve within the above items, the following detail will be illustrated:

- Dates (effective/revision)
- Purpose
- Intended use
- Annual withdrawals/transfers
- Min. Levels, Targets, longer term goals
- Funding Source
- If required;
 - Specific reporting
 - Guiding legislation reference

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A. Sustainability Reserve Funds (Discretionary)

Sustainability reserves are intended to manage cash flows and mitigate wide fluctuations on the General Levy created by extraordinary and unforeseen events, one-time expenditures, revenue shortfalls, etc. Reserves within this category are as follows:

- i. General Working Capital
- ii. Tax Rate Stabilization
- iii. Winterization
- iv. Engineering
- v. Planning
- vi. Year End Surplus
- vii. Debenture Reserve Fund
- viii. Building Standards Service Continuity (*obligatory*)

The above reserves will follow guidance provided in Policy Section I, unless otherwise illustrated below.

i. General Working Capital Reserve

Effective Date: June 6th, 1994
Modified: June 18th, 2012

Purpose: To assist in periods throughout the year when cash balances are low and there is a requirement to cover payments and expenses, before taxes, grants and other revenues become available.

Intended Use/Limitations: The use of these funds are general in nature and this balance is intended to act as a cash float. Capital projects and transfers do not occur for these funds.

Target: 10% of own source revenues

Funding Source: Year-end city operating surplus

ii. Tax Rate Stabilization Reserve

Effective Date: June 6th, 1994
Modified: June 18th, 2012

Purpose: To protect against raising tax increases or reducing service levels due to temporary shortfalls, economic trends, or unanticipated operating expenditures.

Intended Use/Limitations: To offset extraordinary one-time pressures or phase-in significant impacts affecting the general levy and not to be considered a long-term sustainable funding source for general operations.

Annual withdrawals – are not to exceed an annual value equivalent to a 2% tax rate increase.

Target: 10% of own source revenues

Funding Source: Year-end city operating surplus

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iii. Engineering Reserve

Effective Date: April 24th, 2006
Modified: June 18th, 2012

Purpose: The Development Transportation and Engineering Department collects fees for subdivision development services and other activities that span multiple years. This activity is also highly sensitive to volatile and declining economic trends. This reserve fund is established to set aside fees collected, which are reallocated to operations when associated work is performed to more accurately match revenues with expenses and help smooth any future fluctuations.

Intended Use/Limitations: To cover the engineering activity full costs associated with growth development from application to assumption i.e. planning, studies, drawings, installation coordination, inspections, negotiations, process coordination, overhead, etc. The subdivision application process can span multiple years to administer and therefore funding sources, primarily fees, are reserved until required.

Withdrawal / Transfers: Based on development engineering activity actual full costs, calculated quarterly.

Target: Undetermined – Based on forecasted requirements.

Funding Source: Based on terms set out in the engineering subdivision agreements and typically 3.5% of the associated subdivision municipal infrastructure value.

iv. Winterization Reserve

Effective Date: April 24th, 2006
Modified: June 18th, 2012

Purpose: To offset the significant unfavorable budget variances due to severe winter conditions

Intended Use/Limitations: To be used to offset unfavourable year-end Winter Control Division variances due to severe winter conditions, which put the City in an overall unfavorable position. Upon authorization of the Commissioner of Finance/City Treasurer, funds may also be used to phase-in unexpected expense pressures i.e. contract negotiations, etc.

Target: a maximum of 40% of the 4 year Winter Control Division annual adjusted average costs.

Funding Source: Net annual surplus funds generated within the Public Works Winter Control Division. Contributions will occur quarterly, as required. Any surplus balance exceeding the allowable reserve contribution will be allocated to other reserves as defined in the policy.

v. Planning Reserve

Effective Date: January 23rd, 2006
Modified: June 18th, 2012

Purpose: Given the Planning department's sensitivity to volatile and declining economic trends the reserve balance is intended to mitigate any future financial risk or smooth impacts.

Intended Use/Limitations: To be used to offset unfavourable revenue variances due to severe economic conditions, which put the City in an overall unfavorable position. Upon authorization of the Commissioner of Finance/City

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Treasurer funds may also be used to phase in large budget pressures i.e. corporate studies, fee initiatives, etc.

Target: 1.5x the annual 3 year planning revenue average

Funding Source: At the discretion of the Commissioner or Finance/City Treasurer and from annual planning net surpluses, subject to year-end City operating results.

vi. Year-End Expenditure Reserve

Effective Date: June 6th, 1994
Modified: June 18th, 2012

Purpose: To preserve annual operating budget amounts for unexpected delays in budgeted activities, excluding fulltime continuous staffing.

Intended Use/Limitations: Transferred funds are to be use as stated in the approved department memorandum, authorized by Commissioner of Finance/City Treasurer. Each memo shall state the source, purpose, balance and timing.

If transferred funds are not expended in the following year or within the authorized timing, the department will be notified and funds will be reversed to surplus.

Target: Not applicable, based on requirements.

Funding Source: Operating funds will be transferred upon requested approval. A request will consist of a memo explaining the reason for delay, the amount and source of the transfer, and revised spend timeline. Requests will be authorized by the Commissioner of Finance/City Treasurer.

vii. Debenture Reserve Fund

Initial Date: October 15, 1996
Modified: June 18th, 2012

Purpose: To smooth the operating impact of new debenture annual payments.

Intended Use/Limitations: To be used to phase-in the impact of debenture payments. Funds will be drawn upon at the discretion of Commissioner of Finance/City Treasurer

Target: A significant balance is in place to mitigate incremental debenture payments. This is requirement is expected until debenture terms begin to roll (i.e. Debenture maturity begins to make room for newer debenture issues). After the phase-in is complete, the reserve balance will be based a maximum of 10%- 15% of the City's total annual payment and interest costs.

Funding Source: In the year of project approval, an operating budget contribution equivalent to ½ of the annual debenture servicing payments (principal and interest) be provided annually until the year in which payment commences.

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viii. Building Standards Service Continuity (*obligatory*) Effective Date: January 23rd, 2006
Modified: June 18th, 2012

Purpose: Bill 124 imposes specific restrictions on the use of building code revenues. The purpose of the reserve is to accumulate annual building code surpluses, which will be specifically used to provide building code service continuity only.

Intended Use/Limitations: Municipalities are required to segregate fees generated through building code permits and restrict them for building code related purposes. Based on this uses are limited to:

- Offset unfavourable revenue variances due to severe economic conditions; and
- Subsidize any negative year-end position; and
- Upon authorization of the Commissioner of Finance/City Treasurer funds may also be used to fund or phase-in large building code budget items i.e. corporate studies, fee initiatives, capital projects, etc.

Target: A maximum of 1.5 times the annual building code process costs, both direct and indirect. Exceeding the target will trigger a review of trends and if needed a fee review.

Special Reporting: As part of Ontario Building Code 124, the City shall prepare an annual financial report by March 31st of each year. This report includes the account balance for any building permit reserve funds that have been established by Council.

Funding Source: From annual building code revenue surplus.

Specific Legislation Reference: Ontario Building Code – Bill 124

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B. Infrastructure Renewal (Discretionary)

The City's largest investment is in its infrastructure network, which supports the City's overall quality of life. These items range from roads and water mains, to fire engines, to libraries and community centers.

The City's infrastructure reserves are very similar in nature and for this reason this section will identify a general infrastructure reserve purpose, target, and funding source section followed by the intended use/limitation for each individual reserve. Where applicable, if additional information is required other sections may be added.

The reserves will follow guidance provided in Policy Section I, unless otherwise illustrated below.

General Purpose - Reserves form an important component of the Capital financing plan for infrastructure network items and are used specifically for the purpose of repairing and replacing assets as defined in the capital budget guidelines and the intended use/limitation section of each reserve.

Target:

Reserve minimum: a minimum balance equivalent to the next year's planned spending requirements.

Reserve maximum: a balance equivalent to accumulated amortization for the reserve asset class

Funding Source: The primary source of funding for these reserves, unless otherwise stated, is operating budget contributions determined through the budget process. As adopted by Council on September 27th, 2012 the City's infrastructure reserve contributions are developed based on the following funding philosophy:

- That currently established contributions be increased annually based on Statistics Canada information to ensure contributions keep pace with inflation.
- An annual contribution for new additions be based on future values and determined by appropriate lifecycles in the year of the project approved.

Reserves within this category are as follows:

i. Building & Facilities Infrastructure

Intended Use/Limitations: To fund repair and replacement costs associated with City structures and parking areas, including administration facilities, community centres, libraries, memorial sites, park washrooms and facilities, fire stations, public works yard structures, etc.

Heritage facilities are excluded and funded through a separate reserve.

Funding Source: An annual contribution for new additions based on a 2% value on approved building and facility project budget, excluding land costs.

ii. Heritage Fund

Intended Use/Limitations: To fund the acquisition, preservation and ongoing rehabilitation of heritage facilities or items of architectural/cultural significance.

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Funding Source: An annual contribution for new additions based on Building and Facility Department replacement requirements estimates on the over the asset's life. Where possible, the initiating department will be consider sponsorship and fund raising.

iii. Parks Infrastructure

Intended Use/Limitations: To fund repair, refurbishment, and replacement costs associated with City park structures including paths, lighting, pooled furniture, field infrastructure, play field grading and drainage, splash pads, fencing, etc..

iv. Artificial Soccer Turf Reserve

Intended Use/Limitations: Offset future major artificial soccer turf rehabilitation costs

Funding Source: The net difference in rental rate revenue between premium soccer fields and artificial soccer turf fields

v. Vehicle Replacement

Intended Use/Limitations: To fund refurbishment, and replacement costs associated with vehicles and equipment maintained by the City's Fleet department; this excludes fire and rescue apparatus, vehicles and equipment that are maintained by Vaughan Fire and Rescue Services.

vi. Fire Equipment Replacement

Intended Use/Limitations: To fund repair, refurbishment, and replacement costs associated with fire and rescue apparatus, vehicles, and equipment.

vii. Roads Reserve

Intended Use/Limitations: To fund repair, refurbishment, and replacement costs associated with City roads and bridges

Funding Source: An annual flat contribution

viii. Entrance & Streetscape Features

Intended Use/Limitations: To fund repair, refurbishment, and replacement costs associated with City owned entrance way features and streetscape structures i.e. lighting, pathways etc.

ix. Uplands - Capital Improvement

Intended Use/Limitations: To fund major repair, refurbishment, and replacement costs associated with Uplands Ski and Golf Club and as per the obligations set out in the Uplands Golf and Ski Management Agreement, expiring Oct. 31st, 2015. Funding is based on a license fee schedule, 10% of gross revenues up to \$1.6m and 15% above (min. \$150,000 licence fee per year).

x. City Playhouse

Intended Use/Limitations: For the purpose of supporting theatre groups, performers, the acquisition of special equipment, permanent works of art and educational opportunities.

Funding Source: From, but not limited to, third party donations, net theatre program proceeds, and a percentage of

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theatre tickets

C. Corporate (Discretionary)

Corporate Reserves protect against the consequences of certain risks, liabilities and corporate programs. Reserves within this category are as follows:

- i. Election
- ii. Insurance
- iii. Employer Benefits
- iv. WSIB Claims Reserve
- v. Suggestion Program
- vi. Management By-law

The above reserves will follow guidance provided in Policy Section I, unless otherwise illustrated below.

i. Election Reserve

Effective Date: January 27th, 1997
Modified: June 18th, 2012

Purpose: To fund elections, recounts and by-elections

Intended Use/Limitations: At the discretion of the City Clerk, to be used to fund those expenditures related to elections, recounts and by-elections (i.e. technology, tabulator leases, voter list services, election personnel labour costs, etc.)

Target: Forecasted direct election expenditures

Funding Source: Dedicated \$350k operating budget transfer, plus any election campaign surpluses pursuant to the Municipal Elections Act, 1996.

Ref: By-Law 18-97, January 16th, 2012 F&A Report 1 Item 6 (Adopted at Council January 31, 2012)

ii. Insurance Reserve

Effective Date: October 20th, 1986
Modified: June 18th, 2012

Purpose: To hold funds for the payment of qualified claims and to set aside funds for future retroactive rate adjustments to minimize future tax rate impacts

Intended Use/Limitations: For the payment of the cost of the repair of equipment and property under claims to which the insurance deductible clause applies; to set aside funds to pay for any retroactive assessments that may be levied by OMEX.

Target: Estimated at 35% of a cumulative 5 year premium total. This target is based on York Region's 10 year experience and is to be reviewed in 2015 once Vaughan has collected more relevant experience.

Funding Source: A contribution equal to the difference between the traditional 2012 insurance expense budget and estimated OMEX budget. Plus any annual insurance expense actual net surplus. As this is a new approach to insurance management the contribution policy will be revisited in 2015 once some experience has been established.

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Ref: By-Law 407-86

iii. Employer Benefits Reserve

Effective Date: October 28th, 1996
Modified: June 18th, 2012

Purpose: To mitigate or phase-in employer benefit cost increases.

Intended Use/Limitations: To be used to reduce the unfunded liability for accrued employee future benefits and vacation pay. This reserve can also be used to phase in significant future benefit cost increases or unexpected one-time benefit related expenditures (i.e. CPP, EI, benefit plan costs, etc.).

Target: Based on actuarial estimates – Balance required to meet the unfunded liability requirements.

Funding Source: Related benefit surplus

Ref: By-Law 313-96

iv. WSIB Claims Reserve

Effective Date: September 22nd, 2003
Modified: June 18th, 2012

Purpose: The City is currently on the WSIB schedule 2 insurance plan “individual liability”, where by the employer assumes full liability for actual benefits paid, plus an administration charge. Instead of a premium the employer deposits funds with WSIB to cover costs. Since the employer pays the actual costs there is no liability protection. To limit the potential high-cost of WSIB insurance claims, the City has obtained stop loss insurance to cover claims over \$500k and up to \$1m. In addition, the City has developed a reserve to assist in funding the potential high costs of claims.

Intended Use/Limitations: To assist in funding WSIB schedule 2 claims, up to the deductible of the stop loss insurance.

Target: Not applicable, based on requirement.

Funding Source:

- Fixed \$75,000 annual operating budget transfer;
- WSIB benefit rate surplus
- WSIB refunds

Ref: Sept. 9th, 2003 COW Report 65 Item 2 (Adopted at Council September 22, 2003)

v. Suggestion Program Reserve

Effective Date: February 27th, 2002
Modified: June 18th, 2012

Purpose: To have funds set aside for the purposes of an Employee Suggestion Program

Intended Use/Limitations: To provide awards to employees as outlined in the Employee Suggestion Program

Target: Not applicable, based on requirements

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Funding Source: Prior funding source – no future funding source determined (Awards Ceremony surplus)

Ref: none

vi. Management By-Law Reserve

Effective Date: 2003
Modified: June 18th, 2012

Purpose: To provide funds for incentive payments to those management/non-union staff who qualify.

Intended Use/Limitations: As illustrated in section 13 of the management by-law. Incentive payments would be to a maximum of 5% of the employee's annual salary. The payment would be made upon the authorization of the City Manager to recognize the performance of an employee during a special circumstance.

Target: to be determined

Funding Source: No future continuous funding source determined.

Ref: Management by-law 100-2002, section 13

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D. Special Purpose (Discretionary)

Special Purpose Reserves are intended to manage cash flows that have been set aside to provide for the delivery of specific services. Reserves within this category are as follows:

- i. Cemetery
- ii. Garnet A. Williams C.C. Reserve
- iii. Industrial Development
- iv. Keele Valley Landfill
- v. Senior Citizens Bequests
- vi. Sale of Public Land
- vii. Pierre Burton Discovery Centre Reserve
- viii. Water & Wastewater

The above reserves will follow guidance provided in Policy Section I, unless otherwise illustrated below.

i. Cemetery Reserve

Effective Date: June 22nd, 1992
Modified: June 18th, 2012

Purpose: To provide funds for the perpetual care of City-owned cemeteries.

Intended Use/Limitations: To be used for the upkeep and repair of City-owned cemetery structures, pathways, fencing, lighting, furniture, etc. Items should be limited to expenses outside the scope of activities funded through cemetery operating or trust funds.

Target: Not applicable, based on requirements

Funding Source: Prior funding source – no future funding source determined.

Ref: Cemetery Act section #35 & Cemetery By-law 180-92

ii. Garnet A. Williams C.C. Reserve

Effective Date: April 24th, 2006
Modified: June 18th, 2012

Purpose: To provide funds for ongoing repair and maintenance associated with Garnet A. Williams Community Centre's daycare area

Intended Use/Limitations: To be used for future repairs, renovations, monthly maintenance or capital improvements to the space in the Garnet A. Williams Community Centre that is rented to an external provider of daycare services. In the instance the agreement is complete; funds are to be used for conversion or retrofitting purposes.

Target: Not applicable, based on requirements

Funding Source: Per the operator agreement, facility rental revenue received from the external provider of daycare services.

Ref: By-Law 112-2006

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iii. Industrial Development Reserve

Effective Date: December 10th, 1984
Modified: June 18th, 2012

Purpose: To provide funds for the acquisition and development of industrial lands

Intended Use/Limitations: To be used to purchase industrial lands and make any necessary changes to the land to make it suitable for industrial development

Target: Not applicable, based on requirements

Funding Source: The sale of public lands where the funds are to be used for this specific purpose

iv. Keele Valley Landfill Reserve

Effective Date: September 26th, 1994
Modified: June 18th, 2012

Purpose: To hold funds received from operations related to the Keele Valley Landfill

Intended Use/Limitations: To be used for beautification projects on the Maple community, as compensation for inconvenience of past and current maple landfill operations. To be used primarily for streetscape development within Maple

Target: Not applicable, based on requirements

Funding Source: A 10% portion of the royalties received by the Metropolitan Corporation from Eastern Power Developers Inc. from the sale to Ontario Hydro of landfill gas to be used in the generation of electricity

Ref: Council Report December 10, 1984

v. Senior Citizens Bequest Reserve

Effective Date: September 7th, 2004
Modified: June 18th, 2012

Purpose: To deposit funds received from citizen bequests until such a time as they can be used

Intended Use/Limitations: Use of funds as outlined in the citizen bequest at time of donation. If funds or a portion of the funds remain unused for 5 years beyond the intended date for use date, funds will be reallocated to other City purposes at the discretion of the Commissioner or Finance/ City Treasurer.

Target: Not applicable, based on requirements

Funding Source: citizen bequests

Ref: CoW Report59Item21, adopted by Council September 13, 2004

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vi. Sale of Public Lands

Effective Date:
Modified: June 18th, 2012

Purpose: To hold land sale proceeds until required for general or specific purposes.

Intended Use/Limitations: As authorized by Council, including applicable recoverable costs associated with the land purchase e.g. land testing, appraisals, studies, transaction costs etc.

Target: Not applicable, based on requirements

Funding Source: The sale of City owned surplus lands, as per Council Approval

Ref:

vii. Pierre Berton Discovery Centre Reserve

Effective Date:
Modified: June 18th, 2012

Purpose: To collect public donations to go towards the construction and operation of the Pierre Berton Centre.

Intended Use/Limitations: To preserve artefacts and memorabilia from the life of the late Pierre Berton, donated to the City by the Berton family, at a location in Kleinburg.

As authorized by Council, including applicable recoverable costs associated with the land purchase e.g. land testing, appraisals, studies, transaction costs etc.

Target: Not applicable, based on requirements

Funding Source: Public donations (tax receipts to be issued)

Ref: February 21st, 2012 COW report # 4, Item 15 (Council Adopted N 4)

viii. Water Reserve

Effective Date: December 10th, 1984
Modified: June 18th, 2012

Purpose: To ensure the financial viability and continued operations of the Water division

Intended Use/Limitations: To provide funding for working capital, capital infrastructure projects (i.e. vehicles, studies, water main repairs, etc), smooth operating fluctuations, etc.

Target: TBD

Funding Source: Annual water operations net surplus

Ref: Council Report December 10, 1984

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ix. Wastewater Reserve

Effective Date: December 10th, 1984
Modified: June 18th, 2012

Purpose: To ensure the financial viability and continued operations of the Wastewater division

Intended Use/Limitations: To provide funding for working capital, capital infrastructure projects (i.e. vehicles, studies, waste main repairs, etc), smooth operating fluctuations, etc.

Target: TBD

Funding Source: annual Wastewater operations net surplus

Ref: Council Report December 10, 1984

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E. City-wide (Obligatory)

For the majority of services that the City provides, a range of capital facilities, land, equipment and infrastructure is available throughout the City; community centers, libraries, roads, etc. All City residents have access to these facilities. As growth occurs, new facilities will need to be added so that overall service level does not decline.

Under the authority of the Development Charges Act, 1997, the City has passed a by-law to impose City-wide development charges (DCs) against all development anywhere in the City to pay for growth capital costs arising from development and redevelopment within the City.

The development charge background study undertaken by the City estimates the anticipated type of development and associated capital costs to maintain historical 10 year average service levels. It should be noted development charge collections are dependent on the economy and therefore future capital plans may require adjustments and will be different from the initial development charge document plans.

The City's City-wide Development Charge Reserve funds are very similar in nature and for this reason this section will identify a general purpose, target, and funding source section followed by the intended use/limitation for each individual reserve. Where applicable, if additional information is required other sections may be added.

The reserve funds will follow guidance provided in Policy Section I, unless otherwise illustrated below.

The Development Charges Act, 1997, c. 27, s. 33 states that "a municipality that has passed a development charge by-law shall establish a separate reserve fund for each service to which the development charge relates."

General Purpose - Development charges collected are paid into the reserve fund for which the charge relates. Growth related projects are funded from these reserve funds and are typically outlined in the Development Charge Background Study forecast. As per the Development charge document, section 5.1 & 5.5, capital costs must be reduced by 10%, with exception for water, wastewater, storm water drainage, highway, fire protection, etc.

Target – Funding targets are based on Development Charge Document requirements.

A reserve should never be in a deficit position. Council approval must be received before a reserve is put in to a deficit position. The report to council should detail why the reserve is being placed in a deficit position and include a forecast as to when the funds will be received into the reserve to cover the development costs.

If in a negative reserve position, only ½ the development charges collected within the year can be accessed for growth related projects, with the remaining balance earmarked to replenish the reserve. This does not apply to City-wide Management Studies as growth studies precede development.

Funding Source: Development charges as outlined in the Development Charge By-Law.

Reserves within this category are as follows:

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POLICY MANUAL**

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DEPARTMENT: Budgeting & Financial Planning	SUBJECT: Consolidated Reserve Policy	

i. City-wide – Management Studies

Intended Use/Limitations- To provide capital funds to undertake growth-related studies and other general government functions as permitted under legislation (i.e., official plan, secondary plans, development change document etc.) as outlined in the development charges study.

Target – this reserve is permitted to go into a deficit position as the studies funded from this reserve occur before development and the collection of the associated development charges.

A forecast shall be maintained to ensure that future development funds received are sufficient to cover costs of studies undertaken.

ii. City-wide – Library

Intended Use/Limitations- To provide capital funds to support growth related library services including land, buildings, furnishings and resource materials as outlined in the development charges study

iii. City-wide – Fire (100% DC eligible)

Intended Use/Limitations- To provide capital funds to support growth related Fire and Rescue Services including land, buildings, furnishings, equipment, vehicles, etc. as outlined in the development charges study.

iv. City-wide – Recreation

Intended Use/Limitations- To provide capital funds to support growth related indoor recreational services including land, buildings, furnishings, equipment, etc. (e.g. indoor pools, fitness centers, ice resurfacers, etc.) as outlined in the development charges study.

v. City-wide – Park Development

Intended Use/Limitations- To provide capital funds to support growth related park development and facilities (e.g. park facilities, special facilities, pedestrian and bicycle trail systems, operation building, water parks, lighting, furniture etc.) as outlined in the development charges study. Please note land is excluded from the City-Wide Park Development charge as it is covered under the CIL recreation land reserve.

vi. City-wide – Public Works/Fleet

Intended Use/Limitations- To provide capital funds to support growth related public works and fleet operations including land, works yards, salt domes, information systems, vehicle of nearly all City departments, etc, as outlined in the development charges study. Note: Fire and Rescue Services related fleet is excluded, which maintains a separate reserve for its own rolling stock.

vii. City-wide – Roads (100% DC eligible)

Intended Use/Limitations- To provide capital funds to support growth related undertake engineering services which include roads, structures, sidewalks, streetlights, intersection improvements, traffic signalization, streetscaping, growth related studies, etc. as outlined in the development charges study.

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F. Area Specific (Obligatory)

For some services that the City provides, the need for growth related capital additions to support anticipated development is more localized. For such services where costs and benefits are more localized, an alternative technique – the “area-specific approach” is employed. This approach results in a more accurate distribution of costs among developers than the City-wide approach. The area-specific charges relate to the provision of major water distribution mains, sewage collection trunks and storm water drainage works.

Under the authority of the Development Charges Act, 1997, the City has passed a by-law to impose Area Specific development charges against specific development to pay for increased capital costs required because of increased needs for physical and other services arising from development and redevelopment within the City.

The City’s Area Specific Development Charge Reserve funds are similarly structured and for this reason this section will identify a general purpose, target, and funding source section followed by a listing of active reserve funds.

The reserves will follow guidance provided in Policy Section I, unless otherwise illustrated below.

The area specific approach may facilitate front-end financing arrangements for designated services.

General Purpose - Development charges collected are paid into the reserve fund for which the charge relates to specific water, wastewater, and storm drainage capital projects outlined in the Development Charge Background Study.

Target – The area specific approach may facilitate front-end financing arrangements for designated services. Council approval must be received before a reserve is put in to a deficit position.

Funding Source - Development charges collected from developers as outlined in the by-law associated with the special area development charge or developer group agreement.

Reserves within this category are as follows:

- Rainbow Creek Drainage Works – By-law 231-2008
- Pressure District 5 West Woodbridge Watermain – By-law 232-2008
- Pressure District 6 West Major MacKenzie Dr Watermain – By-law 233-2008
- Pressure District 6 East Rutherford Watermain – By-law 234-2008
- Pressure District 7 West Teston Rd/America Ave/Canada Dr Watermain – By-law 235-3008
- Dufferin/Teston Sanitary Sewer OPA 332 – By-law 236-2008
- Ansley Grove Sanitary Subtrunk Sewer Improvements – By-law 237-2008
- Zenway/Fogal Sanitary Sub Trunk Extension – By-law 238-2008

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G. Restricted Grant Funding (Obligatory)

These reserve funds are supported by legislation (federal, provincial or other Act based). These reserves support the City's existing capital infrastructure.

The reserves will follow guidance provided in Policy Section I, unless otherwise illustrated below.

i. Gas Tax Reserve

General Purpose – Environmentally sustainable municipal infrastructure projects that contribute to cleaner air, water and reducing greenhouse gas emissions as described in the Municipal Funding Agreement for the transfer of Federal Gas Tax revenue between the Association of Municipalities of Ontario (AMO) and the City of Vaughan.

Intended Use/Limitations- Money shall be spent in accordance with the standing legislation regarding the use of these funds.

Target – Not applicable, based on requirements

Funding Source - as outlined in the Municipal Funding Agreement; the funding allocation is determined at the provincial/territorial level based on population. The funding is provided to AMO which is responsible for the distribution to the municipalities within the province.

**ii. Municipal Roads & Infrastructure Grant Reserve (Federal)/
Investing in Ontario Grant Reserve (Provincial)**

General Purpose – These reserves resulted from one-time upfront lump sum funding received from the Federal and Provincial governments. The funds received were to be used at the City's discretion for infrastructure capital projects.

Intended Use/Limitations- There are capital projects that still need to be completed. Once completed, the necessary reports will be filed to comply with regulations. At that time, a report can be brought to Council requesting the closure of these reserve accounts

Target – Not applicable

Funding Source - These reserves will not receive any future funding.

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H. Other Item (Obligatory)

Developer agreements may also stipulate the collection of fees from developers for specific purposes. These fees are paid into a reserve until such a time as the funds are required for capital project completion.

The reserves will follow guidance provided in Policy Section I, unless otherwise illustrated below.

i. CIL Recreation Land

General Purpose – In lieu of conveying parkland within the planned development, a developer may opt to provide the City with cash-in-lieu; the City then takes on the responsibility of parkland development within the community.

Intended Use/Limitations- To provide funds to acquire active and/or passive parkland and the associated costs of getting the land ready for its intended purpose (i.e. surveys, appraisals, soil testing, indirect recoveries, etc.).

Target – Not applicable, based on external development decisions

Funding Source – As per section 42, subsection 1 of the Planning Act, the developer has the option to convey land to the City or provide an equivalent cash value. Specific details are provided within the act, but generally speak to 5% of residential land or 2% of commercial/industrial land or 1 hectare per 300 dwelling units.

Ref: section 42; subsection 1 of the Planning Act

ii. Tree Replacement Fee

General Purpose – To have developers guarantee the survival of subdivision trees

Intended Use/Limitations- Provide funds to either plant trees in subdivision boulevards where space exists or to replace trees in subdivisions planted by the developer that do not survive

Target – Not applicable, based on requirements

Funding Source – Fees as outlined in developer agreements

iii. Kleinburg Parking

General Purpose – To retain funding “cash in lieu revenue” from future development in the Kleinberg community for vehicle parking activities.

Intended Use/Limitations- For the purpose of land acquisition, construction of parking lot, landscaping, lighting of parking lot and long term maintenance of parking lot

Target – Not applicable, based on requirements

Funding Source – Fees as outlined in developer agreements

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iv. Royal Palm Drive

Intended Use/Limitations- For the purpose of extending Royal Palm Drive to Crestwood Drive (#35)

Target – Not applicable, based on requirements

Funding Source – Fees as outlined in developer agreements

v. Developer Agreement Reserves

The following reserves are for specific purposes and to fund projects to be completed by Public Works and Engineering to ready an area for development:

- Subdivider Agreements
- Geodetic Benchmark
- Sewer Camera Inspection
- Greenways – WEA (Woodbridge Expansion Area)
- Open Space – WEA (Woodbridge Expansion Area)
- Entry Feature – 427 (Hwy 27 & 427)

Intended Use/Limitations- Per developer agreements

Target – Not applicable, based on requirements

Funding Source – Fees as outlined in Schedule “I” of various developer agreements



Consolidated Reserve Policy & Recommendations

Finance and Administration
Committee

Oct. 29th 2012

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Presentation Topics

- Reserves in general
- The updated reserve policy
- Recommendations for consideration
 - ✓ Additional reserve policy adjustments
 - ✓ Realignment of infrastructure reserve balances
 - ✓ Redistribution of specific reserve amounts

agenda



2

Reserves

Purpose: To set aside funds to help the City manage municipal finances

- Sustainability
- Infrastructure Renewal
- Specific Purpose
- Development
- Overall over 65 reserves representing \$300m +
- Variety of guidance formats/dates
- Need to review and consolidate



3

Consolidated Reserve Policy

- Consistent and centralized framework
- Primarily based on Council approved practices
- Two sections
 - ❖ Guiding policy
 - ❖ Specific reserve details (Appendix)
 - ✓ Purpose and intended use
 - ✓ Annual withdrawals/transfers
 - ✓ Reserve min/max targets
 - ✓ Funding sources
 - ✓ Specific legislation references



4

Consolidated Reserve Policy

Surplus & Reserve Balances Above Target

- Current practice 50/50 operating surplus split
 - Tax Rate Stabilization Reserve
 - Working Capital Reserve
- Priorities are changing & need for flexibility
- Policy expanded to include the following areas
 - Post Retirement Reserve
 - Infrastructure Reserves
 - Innovation Reserve
- Allocation to be determined by the Treasurer based on needs and policy compliance
- Report back annually



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Additional Policy Adjustments

- Create the following reserves
 - *Innovation reserve*
 - *ITM asset replacement reserve*
- Expand the roads reserve purpose
- Merge similar reserves
 - *Building and facilities pre/post reserves*
 - *Library DC reserves*
 - *Uplands reserves*
- Remove inactive reserves



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Infrastructure Reserve \$ Realignment

Infrastructure Reserve	2012 Opening Balance	% of 5 yr Spend Est.	%	\$ yr Spend Est.	Realignment	New Balance	% of 5 yr Spend Est.
Vehicle Replacement	2,410,071	36%	17%	6,647,582	924,345	3,334,416	50%
Fire and Equipment	3,430,191	81%	11%	4,259,455	(1,293,655)	2,136,536	50%
Heritage Fund	470,922	18%	7%	2,582,950	824,682	1,295,603	50%
B&F	13,463,440	82%	41%	16,382,207	(5,246,152)	8,217,289	50%
Parks Infrastructure	128,230	1%	25%	9,806,671	4,790,780	4,919,010	50%
Total	19,902,854	50%	100%	39,678,865	-	19,902,854	50%

* Based on Life Cycle timing estimates

Note: City Playhouse and Uplands are excluded as they are supported through revenue based contributions.

- Reserves & funding contributions evolved over time
- Level of inequity exists when comparing needs
- Balancing resources



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Specific Reserve \$ Redistribution

- Reserves reviewed in context of the policy targets
- Opportunity to redistribute \$

Reserve	Target	\$ to Redistribute
General Working Capital	10% own source revenue	\$ 6,150,000
Tax Rate Stabilization	10% own source revenue	\$ 830,000
Winterization Reserve	1/3 rd of the 4 yr Winter Division annual avg.	\$ 2,600,000
Debenture	*Mitigation Plan/ 10% of debenture costs	\$ 10,750,000
Total		\$ 20,330,000

Reserve	Allocate \$
Innovation Reserve	\$ 2,500,000
Post Employment Benefit Reserve	\$ 9,500,000
Infrastructure Reserves	\$ 8,330,000
Total	\$ 20,330,000



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Specific Reserve \$ Redistribution

- Redistribution consistent with FMP challenges
- Improve post retirement position
- Increase infrastructure adequacy from 50% to 70%

<i>Reserve</i>	<i>*Adj. Resv. \$</i>	<i>Redistribution \$ %</i>	<i>Revised Resv. \$</i>	<i>% of Spend Est. **</i>
Vehicle Replacement	3,334,416	1,395,563 17%	4,729,979	71%
Fire and Equipment	2,136,536	894,211 11%	3,030,746	71%
Heritage Fund	1,295,603	542,253 7%	1,837,856	71%
B&F	8,217,289	3,439,206 41%	11,656,495	71%
Parks Infrastructure	4,919,010	2,058,768 25%	6,977,778	71%
Total	19,902,854	8,330,000 100%	28,232,854	71%

- One action, will not solve the infrastructure gap.
- A further funding strategy is needed.



9

Staff Recommendations

That the following be approved:

- The Consolidated Reserve Policy
- The additional reserve policy adjustments
- The realignment of infrastructure reserve balances
- The redistribution of specific reserve amounts .



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