

CORPORATE POLICY



Policy Title: **Reserves and Reserve Funds Policy**
Policy Category: **Financial Control**
Policy No.: FC-006
Department: Corporate Services
Approval Date: November 19, 2012
Revision Date: December 10, 2018
Author: Julie Koppeser
Attachments: None
Related Documents/Legislation:
Municipal Act, 2001
Key Word(s): Reserve

POLICY STATEMENT:

Council approval is required for any transactions outside of the approved budget or Reserve and Reserve Fund policies that impact a Reserve Fund or Reserve. In addition, any changes to the established policy or use of an individual Reserve or Reserve Fund require Council approval.

PURPOSE:

The primary objective of the Reserves and Reserve Funds Policy is to ensure that monies are set aside for the long term goals of the municipality and that those funds will be available when needed.

Reserves and Reserve Funds are important long-term financial planning tools for municipalities, and are used to set aside funds for a future purpose. Many of the Reserve Funds and Reserves have funding included in the Operating Budget, and are the main funding sources of the Capital Budget. There are a number of instances where using Reserves or Reserve Funds is appropriate, including:

- To facilitate long term financial planning (Capital Reserve Fund)
- To smooth tax rate impacts (Tax Rate Stabilization Reserve)
- To plan for the impact and financing of major capital projects over time (Library Expansion Reserve Fund)
- To absorb the cost of one-time expenses not included in the operating budget (Council's Budget Contingency Reserve)
- To provide for the cost of equipment or facility replacements (Capital Infrastructure Reinvestment Reserve Fund)
- To fund known future obligations (RIM Park Investment Reserve)

Mandatory Policy, *Municipal Act*: No

Policy Administration Team, Review Date: Nov 14, 2018

Corporate Management Team, Review Date: Nov 14, 2018

DEFINITIONS:

- Reserve Fund: Monies set aside for a specific purpose as required by provincial legislation, a municipal by-law, or agreement. Reserve Funds receive an annual interest allocation based on the average annual balance. The City of Waterloo has both Obligatory and Discretionary Reserve Funds
- 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. The main Obligatory Reserve Funds are the Development Charges Reserve Funds that are regulated by the Development Charges Act.
- 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.
- Reserve: Monies set aside by approval of Council and not restricted by legislation. Reserves can be related to projects that are of a nature prescribed and managed by approval of Council. Reserves do not receive an annual interest allocation.

SCOPE:

The Reserves and Reserve Funds Policy applies to all Reserves and Reserve Funds established by the City of Waterloo.

POLICY COMMUNICATION:

The Reserves and Reserve Funds Policy will be posted on the City of Waterloo's Intranet to be accessible to all staff.

POLICY:

Under section 417(1) of the Municipal Act, municipalities have the authority to provide for Reserve Funds in annual budgets for any purpose for which it has the authority to spend money.

The following individual Reserves and Reserve Fund policies have been established with approval of Council. Council approval is required for any transactions outside of the approved budget or Reserve and Reserve Fund policies, as well as any changes to the established policy or use of a Reserve or Reserve Fund.

RESERVE FUNDS:

**BUILDING PERMIT RESERVE FUND (BLD)
(Obligatory)
860030**

POLICY:

The Building Standards division must report their surpluses and deficits to the industry as a separate entity as the Building Code Act states that the fees collected are to be used to administer the Act; surpluses cannot be used to fund general City expenditures, and deficits should be funded from a Reserve Fund and not from the City funds. For this reason, the Building Permit Reserve Fund was established to provide for capital expenditures and revenue stabilization, as building permit activity is highly cyclical.

Revenues

Revenues to the Building Permit Reserve Fund are from Building Permit surplus as it occurs. Contributions and balances associated with building permits should be reviewed every 5 years.

Expenditures

Expenditures from the Building Permit Reserve Fund are to stabilize the building permit revenue line in the Operating Budget and to fund Building Standards division capital expenditures.

Council Approved Target Level

The Building Reserve Fund balance is to maintain a minimum equal to 12 months of projected operating expenses, to mitigate the sharp cyclical drops experienced, or when the economy faces a recessionary period, and to protect against building activity down turns.

**CAPITAL RESERVE FUND (CRF)
(Capital Out of Operating)
(Discretionary)
860001**

POLICY:

The Capital Reserve Fund provides a source of financing for the purchase, construction, or development of new capital assets and studies, as defined under the Definition of

Capital Policy (FC-010). Rehabilitation, refurbishment, and maintenance projects for existing capital assets will not be funded from the Capital Reserve Fund.

Revenues

The Capital Reserve Fund receives an annual operating budget allocation. The Capital Reserve Fund also receives an allocation of 10% of Assessment Growth. In addition, when actual Waterloo North Hydro dividend/investment income exceeds budget, 75% of the surplus is transferred to the Capital Reserve Fund. This year end surplus transfer will only occur to the extent that the City remains in an overall surplus position.

Expenditures

The Capital Reserve Fund provides the funding for new assets and studies.

Council Approved Target Level

The combined balances of the Capital Reserve Fund and the Capital Infrastructure Reinvestment Reserve Fund are not to fall below \$2 million, to provide each of these funds the flexibility to temporarily offset a greater need in the other. A target to maintain the Capital Reserve Fund balance at approximately \$5 million has been established to provide flexibility to address a significant new priority, or to allow funds to be accumulated over a number of years towards a larger project. A maximum level of \$10 million has been established for this fund. If funding levels reach this maximum, funds would be redirected to the Economic Development Reserve, provided the Capital Reserve Fund will have a sufficient balance remaining to meet the project funding requirements of the 10 year capital projection.

CAPITAL INFRASTRUCTURE REINVESTMENT RESERVE FUND (CIRRF) (Discretionary) 860035

POLICY:

The Capital Infrastructure Reinvestment Reserve Fund provides for expenditures associated with the rehabilitation or replacement of all existing tax-based capital infrastructure. The Capital Infrastructure Reinvestment Reserve Fund may be used to assist in meeting the funding requirements of matching programs developed by senior levels of government for rehabilitation or replacement of existing capital infrastructure.

Revenues

The Capital Infrastructure Reinvestment Reserve Fund receives:

- an annual allocation of 30% of Assessment Growth.

- any new infrastructure revenues associated with the rehabilitation of roads or facilities from the Provincial or Federal Governments, not including Gas Tax Funding.
- a 50% allocation of surplus is contributed to this Reserve Fund, as outlined in the Allocation of Surplus policy (FC-003).
- 25% of dividend income/investment surplus, when actual Waterloo North Hydro dividend/investment income exceeds budget. The year-end surplus transfer will only occur to the extent that the City remains in an overall surplus position.
- an annual operating budget allocation.
- an annual allocation of 50% of parking revenues generated from the sale of permits for the WMRC parking lot is split 70% to this reserve fund and 30% to GENOP.

Expenditures

Expenditures from the Capital Infrastructure Reinvestment Reserve Fund are for the rehabilitation or replacement of all existing tax-based capital infrastructure, including facilities and equipment. Costs resulting from emergency infrastructure failure or impending failure are also eligible to be funded from this Reserve Fund. This Reserve Fund may also be used to assist in meeting the unbudgeted funding requirements of government matching programs.

Council Approved Target Level

The combined balances of the Capital Reserve Fund and the Capital Infrastructure Reinvestment Reserve Fund are not to fall below \$2 million, to provide each of these funds the flexibility to temporarily offset a greater need in the other. The target for the Capital Infrastructure Reinvestment Reserve Fund is approximately \$5 million. These levels will provide the flexibility to adjust project timing as priorities are updated, as well as provide for unplanned or emergency rehabilitation or replacement. No maximum has been established for this reserve fund.

CEMETERY RESERVE FUND (CEM) (Discretionary) 860090

POLICY:

The Cemetery Reserve Fund provides a source of funding for the purchase, replacement and expansion of capital items related to Cemetery operations.

Revenues

Revenue to the Cemetery Reserve Fund is provided through an annual allocation from the Cemetery Enterprise operating budget. Additionally, 100% of the Cemetery year end operating budget surplus, if any, is allocated to this Reserve Fund.

Expenditures

Expenditures funded from the Cemetery Reserve Fund are for capital items related to Cemetery operations. This includes both replacement and expansion items.

Council Approved Target Level

The Council approved target level for the Cemetery Reserve Fund is a minimum of \$50,000 to mitigate the impact of an unbudgeted or emergency capital requirement.

**CONSOLIDATED DEVELOPMENT CHARGES RESERVE FUNDS (DC)
(Obligatory)
Summary of Combined Funds**

POLICY:

The Development Charges (DC) Reserve Funds provide financing for growth related projects undertaken by the City as detailed in the DC Background Study and By-law. The DC Reserve Funds include 860040-DC Roads, 860041-DC Water & Sewer, 860042-DC Stormwater, 860043-DC Parks & Indoor Rec, 860044-DC Fleet/Works/Parking, 860045-DC Library, 860046-DC Cemeteries, 860047-DC Fire, and 860048-DC Studies.

For all Development Charges Reserve Funds:

- Annual debt repayments will be made first from the DC Reserve Funds once the Capital Budget is approved by Council
- DC Reserve Funds activity will be tracked quarterly and reported to CMT
- Routine projects will be reviewed to determine which projects can move forward for funding based on cumulative DC revenue collections compared to cumulative capital spending
- Non-routine projects brought forward for capital funding consideration when the Reserve Fund balance is in a positive position, will only be recommended if:
 - there is sufficient funding and revenues are at least 75% of the cumulative target outlined in the current approved DC Background Study, or
 - cumulative capital spending % is less than cumulative revenues collected % as per the current approved DC Background Study
- Non-routine projects brought forward for capital funding consideration when the Reserve Fund balance is in a negative position or will become negative with the project, will only be recommended if:
 - revenues are at least 85% of the cumulative target outlined in the current approved DC Background Study, or
 - cumulative capital spending % is less than cumulative revenues collected % as per the current approved DC Background Study

- Projects failing to meet these requirements will be subject to a Management Review.

Revenues

DC legislation took effect in 1991. A charge is imposed and collected prior to the issuance of a building permit on new development and redevelopment that will result in the demand for hard and soft services.

Expenditures

Projects being funded from DC are restricted to those that were included in calculating the rate and are listed in the approved DC Background Study and By-law (comparable substitutions permitted for the same value).

An eligible project can be defined as a project that would benefit new development during the term of the by-law. Projects that arise during the term of the approved DC Background Study and By-law, that were not originally included, may still be eligible for DC funding. Such projects must be for growth and a Management Review is required. Council must then approve that the projects are for growth and direct that any recoveries be incorporated into the next DC Background Study and Bylaw.

Council Approved Target Level

The Reserve Funds balances should cover projected expenditures and debt charges in the current approved DC Background Study and By-law.

**ENVIRONMENTALLY SENSITIVE LANDS RESERVE FUND (ESL)
(Discretionary)
860008**

POLICY:

The Environmentally Sensitive Lands Reserve Fund provides for the acquisition and purchase of environmentally sensitive lands to ensure protection, preservation and conservation, in alignment with the City of Waterloo's Official Plan, and the Environmental Lands Acquisition Strategy.

Revenues

Revenues to the Environmentally Sensitive Lands Reserve Fund are provided through an annual allocation from the operating budget, as per the capital budget policy.

Expenditures

Land is targeted for purchase as per the Environmental Lands Acquisition Strategy, and purchases are approved annually by Council.

Council Approved Target Level

The balance should not drop below \$40,000 and should be sufficient to purchase targeted lands as they become available over the 10 year capital forecast.

**GAS TAX REBATE RESERVE FUND (GTR)
870034****POLICY:**

The Gas Tax Rebate Reserve Fund provides funding for investments in Environmentally Sustainable Municipal Infrastructure (ESMI) Projects and Capacity Building Projects as per the Agreement for the Transfer of Federal Gasoline Tax Revenues.

Revenues

The City of Waterloo receives a semi-annual allocation of funds from the AMO on behalf of the Federal Government per the Agreement for the Transfer of Federal Gasoline Tax Revenues.

Expenditures

Expenditures from the Gas Tax Rebate Reserve Fund are to be used to support environmentally sustainable municipal infrastructure to help ensure cleaner air, cleaner water, and reduced greenhouse gas emissions. Eligible project categories relevant to the City of Waterloo include: water, wastewater, community energy systems, local roads, bridges, capacity building, disaster mitigation, broadband connectivity, brownfield redevelopment, cultural, tourism, and sport and recreation infrastructure. The Transfer of Federal Gasoline Tax Revenues Agreement sets out Eligible projects/categories as well as terms & conditions in further detail.

Unused gas tax funds will be returned to the Gas Tax Reserve and redistributed to other eligible and similar projects as approved by the appropriate authorizing officers as per policy FC-015 Credit Balances & policy FC-002 Financial Requests Outside of the Budget Process, for administrative ease and improved tracking.

Council Approved Target Level

The balance of the Gas Tax Rebate Reserve Fund should not drop below \$0 and should be monitored regularly to make best use of the opportunity available to the City of Waterloo.

**INDUSTRIAL LAND RESERVE FUND (ILA)
860052**

POLICY:

The purpose of the Industrial Land Reserve Fund is to provide for expenditures related to the acquisition, servicing, and betterment of the City of Waterloo's Industrial Land inventory, and to accumulate Industrial Land holdings sale proceeds. Costs incurred are to be recovered through the subsequent sale of those lands.

Revenues

Proceeds generated by the sale of industrial land holdings fund this Reserve Fund. Market value of lands will be monitored annually to ensure up to date land values are used in projections, however the information is only intended to provide a reasonable forecast of proceeds. Actual sale prices are subject to negotiation.

Expenditures

Expenditures from the Industrial Land Reserve Fund are tracked through site specific program numbers within the Reserve Fund to ensure that costs incurred for a given site do not exceed the projected value of that land. The Industrial Land Reserve Fund provides for:

- Costs incurred to acquire new industrial land
- Costs incurred to service existing industrial land
- Improvements to existing industrial land, such as re-grading, to increase future value

Council Approved Target Level

Expenditures from the Industrial Land Reserve Fund are not to exceed the projected recovery from land sales. As costs are incurred initially, and the timing of revenues is dependent on many factors, including market conditions, this Reserve Fund is likely to maintain a negative position until the sale of lands is completed.

**LIBRARY EXPANSION RESERVE FUND (LXP)
(Discretionary)
860026**

POLICY:

The Library Expansion Reserve Fund contributes to future library expansion.

Revenues

Beginning in 2013, annual allocations are currently projected for the Library Expansion Reserve Fund to be used towards East Side Library expansion. There is no ongoing revenue source for this Reserve Fund.

Expenditures

Expenditures from the Library Expansion Reserve Fund are to be used for East Side Library expansion.

Council Approved Target Level

The balance of the Library Expansion Reserve Fund should not fall below \$0.

**PLANNING LITIGATION RESERVE FUND (LIT)
(Discretionary)
860003**

POLICY:

The Planning Litigation Reserve Fund provides for the cost of planning litigation hearings that may be launched against the City for various legal reasons.

Revenues

An operating budget allocation is transferred annually to maintain the Planning Litigation Reserve Fund.

Expenditures

Expenditures from this Reserve Fund are legal or administrative in nature. In addition, the Planning Litigation operating account is closed to this Reserve Fund annually.

Council Approved Target Level

The Planning Litigation Reserve Fund balance should not drop below \$500,000.

**ONTARIO COMMUNITY INFRASTRUCTURE RESERVE FUND (OCIF)
(Discretionary)
860034**

POLICY:

The Ontario Community Infrastructure Reserve Fund provides funding for projects approved as eligible under the Ontario Community Infrastructure Fund Agreement. The Ontario Community Infrastructure Fund was established by the Government of Ontario to assist small communities in addressing road, bridges, water and wastewater core infrastructure needs. Funds are not to be used for growth-related expansion projects.

Revenues

The City of Waterloo receives an annual provision of funds from the Government of Ontario as outlined in the Agreement, paid in three installments throughout the year. The current agreement provides for annual funding from 2015-2017.

Expenditures

Expenditures from the Ontario Community Infrastructure Reserve Fund are to be used for capital projects and capital maintenance for the renewal, rehabilitation and replacement of core infrastructure assets. Eligible project categories include: Paved and Unpaved Roads, Street Lighting as part of a Roads project, Bridges and Culverts, Water Treatment, Water Distribution/Transmission, Wastewater Treatment & Disposal, Sanitary Sewer Systems and Storm Water Systems, subject to restrictions. The development and implementation of asset management plans for core infrastructure assets are also eligible. The Agreement sets out the eligible projects/categories as well as the terms & conditions in further detail.

Funds are not to be used for growth-related expansion projects.

Unused OCIF funds will be returned to the Reserve Fund and redistributed to other eligible and similar projects as approved by the appropriate authorizing officers as per policy FC-015 Credit Balances & policy FC-002 Financial Requests Outside of the Budget Process, for administrative ease and improved tracking.

Council Approved Target Level

The balance of the Ontario Community Infrastructure Reserve Fund should remain in a positive position and should be monitored regularly to make the best use of the opportunity available to the City of Waterloo.

**PARKING RESERVE FUND (PKG)
(Discretionary)
860020**

POLICY:

The Parking Reserve Fund was originally established in 1999 to provide for the ongoing maintenance of the City's Uptown Parkade and Surface Lots. On May 12, 2008, City Council approved the Uptown Parking Strategy, which identified the need for additional parking infrastructure and a resulting shift in emphasis from maintenance to future increased parking infrastructure, and on May 25, 2009 the Parking Reserve by-law 09-062 was established.

Revenues

The Parking Reserve Fund shall be funded through the following sources:

- a) an annual contribution from the Regional Municipality of Waterloo pursuant to the Agreement to Amend the Master Agreement for the Waterloo Regional Health and Social Services Building, dated July 10, 1992;
- b) 100% of all net parking program revenue
- c) any monies obtained by the City as a result of entering into an agreement exempting an owner/occupant from the City's parking requirements pursuant to section 40 of the Planning Act, as amended; and
- d) any net proceeds from the sale of City owned parking lot property.

Expenditures

The Parking Reserve Fund shall be used for the:

- a) purchase and capital maintenance of any City parking infrastructure and related components, including parking-related technology;
- b) design and construction of new City parking infrastructure and the purchase of associated land, including financing costs;
- c) costs associated with parking-related studies, analysis, policy or strategy development, including those involving external consultants; and
- d) operating deficit incurred by the City's Parking Program, if any.

Un-used OCIF funds will be returned to the reserve fund and redistributed to other eligible and similar projects as approved by the appropriate authorizing officers as per policy FC-015 Credit Balances & policy FC-002 Financial Requests Outside of the Budget Process, for administrative ease and improved tracking.

Council Approved Target Level

The minimum balance for the Parking Reserve Fund is \$500,000 to mitigate risk as Parking operations continues to move towards operating under an enterprise model.

PARKLAND DEDICATION RESERVE FUND (PUB) (Obligatory) 860010

POLICY:

The Parkland Dedication Reserve Fund provides for the purchase and development of parkland in developing areas and redeveloping areas and/or supports the upgrading of existing parks/facilities (neighbourhood, community or city-wide) provided the need to upgrade is due to intensification of the surrounding neighbourhood. This Reserve Fund is a legislative requirement of the Planning Act. A staff team comprised of Finance and Directors of Integrated Planning & Public Works and Community Services will determine which proposed capital projects meet the objectives to receive funding from this account, prioritize timing of projects within the budget, allocate appropriate funding

amounts, and ultimately provide their recommendations as part of the Capital budget process for Council approval.

Revenues

Under Section 42, 51.1 & 53(13) of the Planning Act municipalities are given the authority to request the conveyance of land to the City for parks at a rate of 5% for residential development and 2% of industrial and commercial development. Cash in lieu of parkland can be taken at the discretion of the municipality consistent with the City of Waterloo Parkland Dedication By-law 2015-044 (By-law to amend By-law 2011-024) and Policies, enacted by Council on August 10, 2015. Cash in lieu payments populate this Reserve Fund. The source of revenue for this Reserve Fund is dependent on overall development and redevelopment. It is anticipated that this Reserve Fund will continue to grow.

Expenditures

The use of the Reserve Fund will be prioritized as follows:

1. Land acquisition for additional parks in developing areas or redeveloping areas.
2. To fund the development of the newly acquired lands.
3. To support the redevelopment of existing parks (not new parkland) IF the need for the redevelopment of the park is due to redevelopment/intensification of the immediate neighbourhood served by that park. This would include parks defined as neighbourhood, Community and City parks as defined in the approved 2008 Recreation and Leisure Services Master Plan.
4. Additions to facilities to support growth where the need is due to growth.
5. The non-growth component of growth-related capital projects for Parks Development and Recreation Facilities identified in the City's Development Charges Background Study

Council Approved Target Level

The funding level should be sufficient to purchase and develop new parkland opportunities and to provide funding for the upgrade of parks/facilities in areas undergoing intensification as required.

SICK LEAVE & VACATION LIABILITY RESERVE FUND (SL&V) (Discretionary) 860004

POLICY:

The Sick Leave & Vacation Liability Reserve Fund provides financing for the accumulated sick leave benefit payable to eligible employees upon retirement, termination, or death.

Revenues

Revenues to this Reserve Fund are provided by 100% of the difference between Fire salary budget and actual, less 50% of vacancy related savings for Fire positions. In addition, the yearly increase in vested sick leave liability for Municipal Building Officers I, II, and III, (MBO's) and fire inspectors is contributed to this Reserve Fund.

Expenditures

This payout benefit is only for Staff Association and CUPE members who began prior to 1985 and any member of the fire union (firefighters, MBO'S, inspectors) with 10 years or more of service. In addition, the Reserve funds a retirement stipend from banked sick leave for CUPE staff hired after June 1, 1985 who are voluntarily retiring and who meet the eligibility criteria. The payout is calculated annually and the appropriate transfer is processed at year end.

Council Approved Target Level

The Sick Leave & Vacation Liability Reserve Fund balance should be sufficient to cover 25% of the liability for both Sick Leave and Vacation, as well as projected presumptive claims. The balance should also be sufficient to cover payouts over a three year period.

RESERVES:**COMPREHENSIVE BUSINESS LICENSING RESERVE (BUS)
870042****POLICY:**

The Comprehensive Business Licensing Reserve was established to fund any annual deficit and collect any annual surplus from the Comprehensive Business Licensing Program approved by Council on August 11, 2014, with report COM2014-021. The Comprehensive Business Licensing Program has been developed as a full cost recovery enterprise system.

Revenues

Revenues to the Comprehensive Business Licensing Reserve result from any surplus earned by the Comprehensive Business Licensing Program.

Expenditures

Expenditures from the Comprehensive Business Licensing Reserve are to fund the Comprehensive Business Licensing Program expense lines in the Operating Budget and to fund capital expenditures.

Council Approved Target Level

The balance in the Comprehensive Business Licensing Reserve should not fall below \$0.

**COUNCIL'S COMMUNITY PRIORITY and CONTINGENCY RESERVE (CCPC)
870002-10464****POLICY:**

Council's Community Priority and Contingency Reserve was established in 2009 to provide for expenses that are not a part of the approved budget but that Council determines to be necessary or of considerable merit.

Revenues

The Council's Community Priority and Contingency Reserve receives an annual contribution from Operating.

Expenditures

This Reserve provides funding for unforeseen expenditures that may occur within a year. It is used for unbudgeted or new expenditures of considerable merit.

Council Approved Target Level

The Reserve should not drop below \$0.

**ECONOMIC DEVELOPMENT RESERVE (ECDEV)
870040****POLICY:**

The Economic Development Reserve is to provide one-time funding for opportunities to enhance the business environment within the City of Waterloo, and to create a catalyst to stimulate and support continued economic growth within the City of Waterloo.

Revenues

The Economic Development Reserve is funded from year end surplus, if any, as outlined in the Allocation of Surplus Policy, approved by Council on April 16, 2012.

Expenditures

The Reserve provides funding to the Economic Development Division to implement various economic development related initiatives that provide lasting and sustainable economic benefit that are supported by a business case including metrics as follows:

- initial financial support to attract financial contributions or commitment from other levels of government or the private sector;
- implement initiatives as planned through Council's Strategic Plan, Economic Development Strategy, or any related Economic Development Strategies/priorities;
- provide incentives to retain or attract businesses to the City of Waterloo and maintain a positive business environment

In addition the reserve provides funding to position the City to respond quickly to new opportunities for economic growth and development and transfer annually \$75,000 to the Economic Development Operating Budget.

Prior to submission to Council all reports, funding requests, or budget allocations related to the Economic Development Reserve are subject to review by the Executive Director of Economic Development or designate.

This Reserve is not intended to provide funding for permanent on-going expenses such as permanent staff.

Council Approved Target Level

The Economic Development Reserve balance is to remain positive. The target balance is \$1.5 million, to provide flexibility to address a significant new priority or to allow funds to be accumulated towards a larger project. The maximum for the reserve is \$5 million. If funding levels reach this maximum, funds would be redirected to the Tax Rate Stabilization Reserve, provided the Economic Development Reserve will have a sufficient balance remaining to meet the project funding requirements of the 10 year capital projection.

ELECTIONS RESERVE (ELEC) 870006

POLICY:

The Elections Reserve was established to amortize the cost of a municipal election over 4 years, rather than expensing the entire amount in the year of the election.

Revenues

The Elections Reserve received an allocation from the operating budget.

Expenditures

Expenditures from the Elections Reserve are to be for election related expenses. The draw on the reserve for election costs is calculated annually and the appropriate transfer is processed at year end, if needed.

Council Approved Target Level

The Elections Reserve balance should not drop below zero.

**EMPLOYEE DEVELOPMENT and CAPACITY BUILDING RESERVE (EMPDV)
870032****POLICY:**

The Employee Development and Capacity Building Reserve is used to accumulate corporate savings from staffing vacancies to support employee-based initiatives.

Revenues

- Vacancy savings for all regular positions, including all Management positions and all regular positions governed by CUPE and Staff Association.
- Vacancy savings related to Waterloo Professional Fire Fighter Association positions are divided evenly between the Employee Development and Capacity Building Reserve and the Sick Leave and Vacation Liability Reserve Fund.
- Positions that are a part of Utilities, Cemeteries, or other Enterprise Units are exempt from this policy, as these savings are allocated to the respective enterprise Reserve or Reserve Fund.
- Vacancy management savings/transfers are calculated based on a minimum of eight (8) weeks of vacancy which represents on average the natural gap that occurs during the recruitment process. Further details on the treatment of vacancies that are greater than 8 weeks, savings from vacancies related to terminations, and the approval process for exemptions are included in the Council Approved Human Resources Employee Development and Capacity Building Reserve Policy.

Expenditures

- This Reserve funds employee-based initiatives such as: staff and leadership development, employee recognition, reorganization/restructuring implementation, employee wellness initiatives, terminations, back filling staff on extended sick leave if funds are not available in the division, and space planning.
- Any unbudgeted expenses requested to be funded from this Reserve are subject to the following approval process:
 - CAO can approve unbudgeted expenses from this Reserve pursuant to By-Law #2014-076, a by-law to define the duties of the office of the Chief Administrative Officer, and any successor by-laws, provide there is sufficient funding in the Reserve

Council Approved Target Level

The Reserve balance should be sufficient to cover one year's worth of expenses.

**FLEET EQUIPMENT RESERVE (ER)
870017**

POLICY:

The Fleet Equipment Reserve provides a source of funding for the replacement of vehicles and equipment, as outlined in the Finance Fleet policy. Where expansion is necessary and where DC funding cannot be applied, this Reserve is to provide a source of funding for the purchase of such fleet/equipment. Each request for expansion funded from the Reserve must be made clear during the capital budget process.

Revenues

Revenues for the Fleet Equipment Reserves are generated through the application of an annual Capital Cost Recovery charge per vehicle/equipment (unit). Units repay the Reserve over the useful life of the unit, including a 25% markup factor as per the Finance Fleet Policy.

Expenditures

Expenditures from the Reserves are for the replacement of vehicles and equipment.

Council Approved Target Level

The Reserve balance should be adequate to replace existing equipment on a replacement schedule based on estimated life span of the equipment. The Council approved target level of the Reserve is \$1,500,000.

**GENERAL OPERATING CONTINGENCY RESERVE (GENOP)
8700043**

POLICY:

The General Operating Contingency Reserve funds operating expenditure variations that result from cyclical spending. In addition, unanticipated operating opportunities and pressures, and those which are anticipated but for which the timing is undetermined would also be funded from this reserve.

Revenues

The General Operating Contingency Reserve receives an annual operating budget allocation. In addition, an annual allocation of 10% of gross rent from City Centre leases is transferred to this reserve. An annual allocation of 50% of parking revenues generated from the sale of permits for the WMRC parking lot is split 30% to this reserve and 70% to CIRRF.

Expenditures

This Reserve provides for operating expenditure variations resulting from cyclical spending, unanticipated operating opportunities and pressures, and anticipated expenditures for which the timing cannot be anticipated. Examples would include but are not limited to:

- expenditures from unexpected environmental issues such as soil or groundwater contamination
- emergency maintenance requirements at any corporate facilities
- expenditures relating to significant storm events
- a major work related injury
- offsetting the impact of tenant vacancy, the acquisition of new tenants, and related leasehold improvements

Council Approved Target Level

The General Operating Contingency Reserve minimum balance is \$500,000, which is equal to the highest potential charge per incident by the Ministry of Labour under the Occupational Health & Safety Act, Section 66. The target balance of the reserve is 3% of the net tax levy. The maximum balance for the reserve is 4% of the net tax levy. If funding levels reach this maximum, funds would be redirected to the Tax Rate Stabilization Reserve.

HERITAGE RESERVE (HER) 870024

POLICY:

The purpose of the Heritage Reserve is to fund expenditures related to the management of Waterloo's heritage, which includes the City's heritage collection, heritage programming, and built heritage conservation efforts.

Revenues

Revenue sources of the Heritage Reserve include:

- Donations made with or without a specified purpose
- Proceeds received from fundraising activities
- Budgeted contributions
- Grants or subsidies
- Insurance payments received for historical property loss, damage, or theft
- Proceeds from the sale of City-owned designated properties
- Proceeds from the de-accessioning of artifacts

Expenditures

The Heritage Reserve funds:

- Costs of artifact acquisitions, loans, and restorations
- Capital costs related to program delivery for the City of Waterloo's Museum and built heritage conservation
- Studies to further the City of Waterloo's heritage conservation and the City of Waterloo Museum's development

Council Approved Target Level

The Heritage Reserve will remain in a positive position.

**INNOVATION RESERVE (INN)
870003****POLICY:**

The Innovation Reserve provides a funding source to departments for projects which possess potential for revenue generation or expense reduction that have a payback of less than 5 years.

Revenues

The Innovation Reserve has no ongoing funding source. The Reserve has historically been funded from year end surplus, as needed.

Expenditures

The Innovation Reserve provides funding for eligible capital projects which are considered to have the ability to generate additional revenues or to reduce expenditures. Projects applying for this source of financing must be supported through a business case approved by CMT and Council.

Council Approved Target Level

The Innovation Reserve cap is \$750,000 based on historical expenditures and anticipated use of this Reserve.

**PUBLIC ART RESERVE (ART)
870012****POLICY:**

The Public Art Reserve provides funding to acquire artistic works to be sited on or staged in municipally owned public spaces, as identified by the Public Art Master Plan, and in accordance with the City of Waterloo Public Art Policy (A-018).

Revenues

Revenue sources of the Public Art Reserve include:

- 1% of the City's contribution to the total budgeted non-land costs of applicable capital projects over \$1 million, as defined in the City of Waterloo Public Art Policy, to a maximum of \$300,000
- Developer contributions, as outlined in the Official Plan, through Section 37 of the Planning Act
- Private sector and community donations
- Proceeds from the de-accessioning of artistic works

Expenditures

The Public Art Reserve funds expenditures related to designing, fabricating, installing and documenting public works or community art projects chosen through an objective juried selection process, allowing for the strategic inclusion of artistic works in public spaces.

The Interdepartmental Public Art Team may also recommend this Reserve as a funding source for extraordinary costs associated with the conservation or repair of artistic works that exceed the annual operating maintenance budget.

Council Approved Target Level

The Public Art Reserve will remain in a positive position.

**REGIONAL ROAD MAINTENANCE AGREEMENT RESERVE (RRMA)
870037****POLICY:**

The Regional Road Maintenance Agreement (RRMA) began on January 1, 2010. This Reserve provides funding for summer and winter maintenance as per the RRMA in the event of a deficit in the Regional Road Maintenance Operating Budget. The Reserve aids in minimizing the financial implications resulting from extreme weather conditions.

Revenues

This Reserve is funded from the surplus from the annual Operating Budget for summer Regional Road Maintenance, if any.

For summer maintenance, the City receives a flat rate per lane kilometre. The City can keep any surplus or must fund any deficit. The service level must be maintained, however, as per the agreement.

For winter maintenance, the City receives 100% cost recovery up to the 5 year baseline average. The first 5% in cost over-runs is to be funded by the City, and any amount over the 5% is fully cost recovered from the Region. Additionally, new for 2015 is the introduction of a monthly minimum winter payment. Each winter month, the City's winter payment will be equal to or greater than 65% of the monthly baseline average. This monthly minimum clause has been added to the contract in an effort to recognize the City's fixed cost associated with performing this winter work and may lead to a winter surplus.

Any surplus generated from summer or winter maintenance can be used to offset any deficits generated by summer or winter maintenance.

Expenditures

This Reserve provides additional funding for Regional Road Maintenance summer and winter expenditures in the event of a deficiency in the Operating Budget amount for summer and winter Regional Road Maintenance.

Council Approved Target Level

The Reserve should not drop below \$0. There is no upset limit imposed by the RRMA.

**RESIDENTIAL RENTAL HOUSING RESERVE (RHR)
870038****POLICY:**

The Residential Rental Housing Reserve was established to fund any annual deficit and collect any annual surplus for the Residential Rental Housing Program approved by Council on May 9, 2011, with report PS-BL2011-016.

Revenues

Revenues to the Residential Rental Housing Reserve result from any surplus earned by the Rental Housing Program.

Expenditures

Expenditures from the Residential Rental Housing Reserve are to fund the Residential Rental Housing Program expense lines in the Operating Budget and to fund capital expenditures.

Council Approved Target Level

The approved target level from 2011 to 2016 is \$0, with surplus intended to grow the balance beyond 2016.

**RIM PARK INVESTMENT RESERVE (RIM)
870033****POLICY:**

The RIM Park Investment Reserve was established to offset the lease liability of RIM Park.

Revenues

The RIM Park Investment Reserve receives an annual operating budget allocation, as well as an annual allocation from year end surplus, if any. In addition, when actual investment income exceeds budgeted investment income, the surplus is transferred to the RIM Park Investment Reserve. This year end

surplus transfer will only occur to the extent that the City remains in an overall surplus position.

Expenditures

Expenditures from the RIM Park Investment Reserve are to offset the lease payments from the operating budget related to RIM Park.

Council Approved Target Level

The balance in the RIM Park Investment Reserve should be sufficient to cover lease payments until 2031.

**SANITARY SEWER UTILITY CAPITAL RESERVE (SEW-CAP)
87XXXX****POLICY:**

The Sanitary Sewer Utility Capital Reserve provides funding for budgeted asset replacement or rehabilitation capital projects, as well as unbudgeted capital needs.

Revenues

The Sanitary Sewer Utility Capital Reserve is funded through annual contributions from the operating budget. The annual contribution is to be set at an amount that provides sufficient funding for all approved current asset replacement / rehabilitation capital projects, while maintaining the Council approved minimum target level.

Expenditures

The Sanitary Sewer Utility Capital Reserve provides a source of financing along with any Council approved debt, for all approved asset replacement/rehabilitation capital projects and any unbudgeted capital needs that may arise.

As pressures to sanitary sewer rates can result from either capital or operating activities, transfers between the Sanitary Sewer Utility Capital Reserve and the Sanitary Sewer Utility Stabilization Reserve may be required to minimize sanitary sewer rate impacts. These transfers are considered a normal part of the administration of the sanitary sewer utility model and will be approved by the Chief Financial Officer and related Commissioner.

Council Approved Target Level

The minimum approved target level of the Sanitary Sewer Utility Capital Reserve is 1% of the estimated asset replacement value.

**SANITARY SEWER UTILITY STABILIZATION RESERVE (SEW-OP)
87XXXX**

POLICY:

The Sanitary Sewer Utility Stabilization Reserve accumulates any Sanitary Sewer operating surpluses and provides a source of financing, both to offset any Sanitary Sewer operating deficits, as well as to avoid unplanned rate spikes in the subsequent year.

Revenues

The Sanitary Sewer Utility Stabilization Reserve is funded through an annual contribution from the operating budget and any year-end Sanitary Sewer operating surpluses. The Sanitary Sewer Utility Stabilization Reserve is to be established at a rate of 1% of the annual operating expenditures per year from 2019-2023, until the target level is achieved.

Expenditures

The Sanitary Sewer Utility Stabilization Reserve provides a source of financing to offset any year-end Sanitary Sewer operating deficits that may occur, and to avoid unplanned rate spikes in the subsequent year.

As pressures to sanitary sewer rates can result from either capital or operating activities, transfers between the Sanitary Sewer Utility Capital Reserve and the Sanitary Sewer Utility Stabilization Reserve may be required to minimize sanitary sewer rate impacts. These transfers are considered a normal part of the administration of the sanitary sewer utility model and will be approved by the Chief Financial Officer.

Council Approved Target Level

The minimum approved target level of the Sanitary Sewer Utility Stabilization Reserve is 5% of the annual Sanitary Sewer Utility operating expenditures.

**STORMWATER RETAINED EARNINGS (SWM)
899041**

POLICY:

The Stormwater Reserve funds the entire Stormwater Utility day to day operations, as well as capital projects. It is also used to assist in the gradual introduction of Utility rate increases as required.

Revenues

Stormwater Reserve revenues are generated from fees charged to external customers by the utility as approved in the Fees & Charges By-law. Any surplus after expenses that have been processed by the utility are directed to this Reserve.

Expenditures

The Stormwater Reserve funds the entire Utility operations, both operating and capital. A deficit incurred by the Utility will be funded through this Reserve.

Council Approved Target Level

The minimum approved target level for the Stormwater Reserve is \$1,000,000 in order to provide an appropriate contingency based on the current Stormwater Utility operating and capital budgets.

**TAX RATE STABILIZATION RESERVE (TRS)
870008****POLICY:**

The Tax Rate Stabilization Reserve provides a contingency for unforeseen events that might put pressure on the tax rate. This reserve is precluded from being used as a planned funding source for capital.

Revenues

The Tax Rate Stabilization Reserve revenues are the annual step gapping for Staff Association and Management. Step gapping is the difference between a position's salary and benefits budget and the actual level the position is paid at. Utilities and Building Standards step gapping is exempted from this policy. In addition, this Reserve receives an allocation from year end surplus, as outlined in the Surplus Allocation Policy.

Expenditures

The Tax Rate Stabilization Reserve is to be used for unforeseen expenditures of a one-time nature.

Council Approved Target Level

This Reserve minimum balance is 1% of the Net Tax Levy. A target balance of 3% of the Net Tax Levy has been set for this reserve, and a maximum of 5% of the Net Tax Levy. If funding levels reach this maximum, funds would be redirected to the Capital Infrastructure Reinvestment Reserve Fund.

**WATER UTILITY CAPITAL RESERVE (WAT-CAP)
87XXXX****POLICY:**

The Water Utility Capital Reserve provides funding for budgeted asset replacement or rehabilitation capital projects, as well as unbudgeted capital needs.

Revenues

The Water Utility Capital Reserve is funded through annual contributions from the operating budget. The annual contribution is to be set at an amount that

provides sufficient funding for all approved current asset replacement/rehabilitation capital projects, while maintaining the Council approved minimum target level.

Expenditures

The Water Utility Capital Reserve provides a source of financing along with any Council approved debt, for all approved asset replacement/rehabilitation capital projects and any unbudgeted capital needs that may arise.

As pressures to water rates can result from either capital or operating activities, transfers between the Water Utility Capital Reserve and the Water Utility Stabilization Reserve may be required to minimize water rate impacts. These transfers are considered a normal part of the administration of the water utility model and will be approved by the Chief Financial Officer.

Council Approved Target Level

The minimum approved target level of the Water Utility Capital Reserve is 1% of the estimated asset replacement value.

**WATER UTILITY STABILIZATION RESERVE (WAT-OP)
87XXXX****POLICY:**

The Water Utility Stabilization Reserve accumulates any Water operating surpluses and provides a source of financing, both to offset any Water operating deficits, as well as to avoid unplanned rate spikes in the subsequent year.

Revenues

The Water Utility Stabilization Reserve is funded through an annual contribution from the operating budget and any year-end Water operating surpluses. The Water Utility Stabilization Reserve is to be established at a rate of 1% of the annual operating expenditures per year from 2019-2023, until the target level is achieved.

Expenditures

The Water Utility Stabilization Reserve provides a source of financing to offset any year-end Water operating deficits that may occur, and to avoid unplanned rate spikes in the subsequent year.

As pressures to water rates can result from either capital or operating activities, transfers between the Water Utility Capital Reserve and the Water Utility Stabilization Reserve may be required to minimize water rate impacts. These transfers are considered a normal part of the administration of the water utility model and will be approved by the Chief Financial Officer.

Council Approved Target Level

The minimum approved target level of the Water Utility Stabilization Reserve is 5% of the annual Water Utility operating expenditures.

**WINTER CONTROL RESERVE (WC)
870016****POLICY:**

The Winter Control Reserve funds winter maintenance in the event of a shortfall in the Winter Control Operating Budget. The Reserve aids in minimizing the financial implications resulting from extreme winter weather conditions.

Revenues

The Winter Control Reserve receives an annual operating budget allocation. In addition, surplus from the annual operating budget for winter control, if any is contributed to this reserve.

Expenditures

This reserve provides additional funding for winter maintenance expenditures on City roads and parks in the event of a deficiency in the operating budget amount for winter control.

Council Approved Target Level

The Winter Control Reserve minimum balance is 25% of the 5-year average winter maintenance costs. A target of 50% of the 5-year average winter maintenance costs has been set for this reserve, and the maximum has been set at \$2 million. If funding levels reach this maximum, funds would be redirected to the Tax Rate Stabilization Reserve.

COMPLIANCE:

In cases of policy violation, the City may investigate and determine appropriate corrective action.