

City of Mississauga

Corporate Policy & Procedure



Draft Only – May 19, 2022

Policy Title: Reserves and Reserve Funds Management

Policy Number: [Policy No.]

Section: Finance and Accounting

Effective Date: [Effective Date]

Approved by:

Click here to enter text.

Subsection: Cash Management

Last Review Date: [Last Review]

Owner Division/Contact:

**Financial Strategies, Finance Division,
Corporate Services Department**

Policy Statement

The City of Mississauga uses Reserves and Reserve Funds to promote sound fiscal management for long-range financial expenditures and to sustain funding during unforeseen or unusual circumstances.

Purpose

The purpose of this Policy is to establish guiding principles, internal controls, management and administrative responsibilities for Reserves and Reserve Funds managed by the City of Mississauga.

Scope

The Reserves and Reserve Funds Management Policy applies to all Reserves and Reserve Funds established by the City of Mississauga and to staff who are responsible for administering and managing the Reserves and Reserve Funds.

This Policy covers:

- Creating Reserves and Reserve Funds
- Amending, consolidating or closing of Reserves and Reserve Funds
- Administration of Reserves and Reserve Funds, and
- Review and reporting of Reserves and Reserve Funds

Legislative Authority

The City's Reserves and Reserve Funds Management Policy complies with:

- The *Municipal Act, 2001*
- Public Sector Accounting Standards
- Corporate policies, procedures and City by-laws

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Related policies include:

- Debt Management
- Investment

Definitions

For the purposes of this policy:

“Capital Budget” means year one of the multi-year plan, comprised of Capital Projects with accompanying funding sources proposed for Council approval.

“Capital Project” means an assignment of significant expenditures to acquire, maintain or improve City tangible assets or a development of a nontangible asset (example: feasibility study or a planning study); funding is approved by Council in the Capital Budget process.

“City” means The Corporation of the City of Mississauga.

“City Funds Portfolio” means the City’s investment portfolio of cash and securities that provides the necessary cash flow to Finance Operating and Capital Budget expenses for current and future years. This portfolio may contain cash and investment balances emanating from: the Operating Fund, the Capital Fund, Reserves and Reserve Funds, unused cash proceeds from temporary short term borrowing and unused cash proceeds from long term debenture issuance.

“Council” means the Mayor and Members of Council for The Corporation of the City of Mississauga.

“Discretionary Reserve Funds” means funds that are created at the discretion of Council to finance future expenditures, for a purpose designated by Council.

“Obligatory Reserve Funds” means Reserve Funds that are required by legislation or agreement, where certain revenue received for special purposes be segregated from the general revenues of the municipality. The funds are received as financial contributions for work to be undertaken by the City on behalf of the contributor. Any unspent funds may need to be returned according to specific agreements. These funds are classified in the financial statements as Deferred Revenue.

“Operating Budget” means the annual Council-approved budget for expenditures, revenues, staffing levels and service levels for operations of the City from January 1 to December 31.

“Operating Budget Deficit” means the difference when actual operating costs exceed actual operating revenues.

“Operating Budget Surplus” means the difference when actual operating revenues exceed actual operating costs.

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“Reserves” means an allocation of accumulated net revenue which makes no reference to a specific asset and does not require the segregation of money or assets. Reserves are generally used to mitigate the impact of budgetary fluctuations in operating costs and revenue.

“Reserve Funds” means the segregation of funds which are restricted to meet a specific purpose of the reserve fund. There are two types of reserve funds: Discretionary and Obligatory.

“Sub-Reserves” or “Sub-Reserve Funds” means funds that are set up for administrative purposes as a subset of an existing Reserve or Reserve Fund.

“Treasurer” means the Director of Finance or the staff designated in writing as such to act in the absence of the Treasurer.

Administration

This policy is administered by the Finance Division, Corporate Services Department. Revisions to the Guidelines that support this policy are approved by the Treasurer.

Creating Reserves and Reserve Funds

Finance is responsible for the process of establishing Reserves and Reserve Funds, which must be approved by Council.

Establishment of any new Reserve or Reserve Fund requires the following:

- Reserve/Reserve Fund name
- Intended purpose of the Reserve/Reserve Fund
- Assigned Reserve Fund number
- Classification of Reserve or Reserve Fund, and
- Any other pertinent information, such as special reporting requirements, conditions or restrictions

A by-law will be passed by Council to authorize the creation of a new Reserve and/or Reserve Fund. This will amend the applicable Reserve and Reserve Fund By-law and its schedules.

The Treasurer has the authority to establish Sub-Reserves/Sub-Reserve Funds. Sub-Reserves/Sub-Reserve Funds can be used for independent tracking or reporting purposes.

Amending, Consolidating or Closing of Reserves and Reserve Funds

A by-law will be passed by Council to authorize the amendment, consolidation, segregation or closure of an existing Reserve and/or Reserve Fund. This will amend the applicable Reserve and Reserve Fund By-law and its schedules.

Amending

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Any modifications to the characteristics below require a by-law amendment:

- Name (Schedules of R&RF By-law)
- Description/Purpose (Schedules of R&RF By-law)
- Classification Reserve or Reserve Fund (Schedules of R&RF By-law)

Consolidating or Segregating

Any consolidating or segregating of Reserves and Reserve Funds requires a by-law with the proposed name, Reserve/Reserve Fund number and justification for the change

Closing

A Reserve or Reserve Fund should be closed when the:

- Purpose(s) has been achieved
- Purpose ceases to exist, and
- Program commitments have been completed and no future commitments are expected

Administration of Reserves and Reserve Funds

Transfers to/from Reserves or Reserve Funds

Contributions from the Operating Budget to Reserves and Reserve Funds are approved by Council as part of the annual budget process and/or through approval of a Corporate Report and/or by resolution of Council.

Draws from Reserves and Reserve Funds to the Operating Budget or Capital Projects are approved by Council as part of the annual budget process and/or through approval of a Corporate Report and/or by resolution of Council.

Transfers to/from Reserve and Reserve Funds resulting from the year-end Operating Budget variance are authorized by the Treasurer.

All other transfers to/from Reserve and Reserve Funds not outlined in the annual budget process do not require Council approval (e.g., Development Charge receipt, interest allocation, donations, external funding, energy conservation initiatives, etc.).

Reserve and Reserve Fund Balances

Reserve and Reserves Funds are permitted to carry negative balances when overdrawn for their intended purpose, as authorized by the Treasurer.

When the balance in a Reserve and/or Reserve Fund is below zero, the Treasurer will arrange to replenish the balance.

Interest, equivalent to the rate of return (percent) on the City Funds Portfolio, will be applied to the overdrawn amount.

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Internal Borrowing

Borrowing between Reserves and Reserve Funds is permitted to cover a deficit in a Reserve or Reserve Fund, specifically when the funds are used for something other than their intended purpose(s).

For any such borrowing, a repayment plan and borrowing agreement must be approved by the Treasurer.

Legislated requirements may apply (e.g. *Development Charges Act*).

Interest, equivalent to the rate of return (percent) on the City Funds Portfolio will be applied to the outstanding amount borrowed.

Interest and Investment Income Allocation

Interest on Reserve Funds shall be carried out in accordance with the Investment Policy. Reserves do not earn interest.

The investment income earned on a specified Reserve Fund must be added to the balance.

Reserve/Reserve Fund Targets and Liquidity

Reserves and Reserve Funds shall be kept at an adequate level to ensure the City has sufficient cash flow to meet its financial obligations. On an annual basis, Finance will review the Reserve and Reserve Fund balances against their set targets and ensure that they are met over a 10-year timeline. A list of Reserve and Reserve Funds with targets is attached as Appendix 1.

Target balances for specific Reserve and Reserve Funds are managed by the Finance Division to ensure they are adequately funded for their intended purposes. Methods for calculating Reserve and Reserve Fund targets shall be determined on a case-by-case basis considering the following:

- Purpose of the Reserve or Reserve Fund
- Predictability of revenues and volatility of expenditures
- Probability of future liability
- Economic factors (inflation, interest rates, cyclical pressures), and
- Industry/government/accounting standards and best-practices

Established targets must meet the following criteria:

- Targets must be set at a fixed level and not as a range
- Targets should be set conservatively but with the understanding that a contingency Reserve (i.e. a Reserve that is used to mitigate unforeseen events or one-time unanticipated revenue losses and expenses) is in place for extraordinary events
- A rationale and funding plan identifying and outlining how the target could be achieved or maintained

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Targets should be reviewed at least every three years.

For any Operating Reserves and Discretionary Reserve Funds with balances exceeding their targets, the Treasurer may recommend to Council the distribution of the excess to any Reserve and/or Reserve Funds below target.

Surplus/Deficit Management

An Operating Budget surplus realized by the City at year-end will be utilized in the following order:

1. To replenish unanticipated in-year Reserve and Reserve Fund draws, including net Works in Progress (WIP), and any money requested through Corporate Reports during the year.
2. 50% of the remaining Operating Budget Surplus should be transferred to Capital Reserve Fund.
3. 50% of the remaining Operating Budget Surplus will be used to proportionally supplement other Reserve and Reserve Funds with targets, based on the average target deficit (based on ten year future projections).

Operating Budget Deficits will be funded by City Reserves and Reserve Funds, considering targets, purpose and availability.

The Treasurer will recommend Reserve and Reserve Fund transfers based on the City-wide surplus/deficit position.

Review and Reporting of Reserves and Reserve Funds

Review of Reserves and Reserve Funds

All Reserves and Reserve Funds are scheduled for an in-depth analysis at least once every three years, on a rotational basis.

Annual Reporting

Reserves and Reserve Fund will be reported to Council on an annual basis. The report will consist of details such as opening and closing of Reserve and Reserve Funds, Fund balances, and in-year activity.

Revision History

Reference	Description
Enter previous review - e.g. GC-1234-2015	Click here to enter text.

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Appendix 1

Reserve and Reserve Fund	Target Calculation
Reserve for Winter Maintenance	33% of last 5-year average winter maintenance expenditures.
Reserve for Building Revenue Stabilization	100% of the average of actual building permit revenue and development fee revenue for the highest two years in the last five years.
Fiscal Stability Reserve	10% of own-source revenue, less target for other stabilization / contingency funds (currently, Winter Maintenance and Building Permit Revenue Stabilization).
Insurance Reserve Funds	Year-end value of case reserves plus 50% of the actuarial present value for Incurred but Not Reported (IBNR) claims (both from the Actuarial Insurance Report).
Employee Benefits Reserve Fund	Total of 2x 5 years average expenditure for (1) vacation payouts; (2) sick leave payouts; (3) group life insurance; plus (4) 10 year forward looking average of expenses for WSIB.
Capital Reserve Fund	Maintain cash balance equivalent to one year's worth of the 10-year forward-looking average of the tax-supported capital expenditure requirements (excluding debt).
Stormwater Capital Reserve Fund	Maintain cash balance equivalent to 10-year average.
Federal Gas Tax	Equal to one year's contribution (prior year).
Provincial Gas Tax	Equal to one year's contribution (prior year).
DCA - General Government	Equal to one year's contribution (prior year).
DCA - Dev Related Studies-Discounted Services	
DCA - DCA Dev Related Studies-Non Discounted Services	
DCA - Recreation and Parks Development	
DCA - Fire Services	
DCA - Library	

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DCA - Transit	
DCA - Roads and Related Infrastructure	
DCA - Public Works	
DCA - Parking	
DCA - Stormwater	