

**THE CORPORATION OF THE TOWNSHIP OF
EDWARDSBURGH CARDINAL**

BY-LAW NO. 2023-34

“TO ADOPT A RESERVE AND RESERVE FUNDS POLICY”

WHEREAS Municipal Council deems it advisable to adopt a policy with respect to the reserve and reserve funds of the Township of Edwardsburgh Cardinal;

NOW THEREFORE BE IT RESOLVED that the Council of the Township of Edwardsburgh Cardinal enacts as follows:

1. That the Reserve and Reserve Funds Policy attached hereto as Schedule “A” and forming part of this bylaw is hereby adopted
2. That bylaw 2020-67 and all other bylaws previously passed that are inconsistent with the provisions of this bylaw are hereby repealed.
3. That this by-law shall come into force and take effect on the date of passing.

Read a first and second time in open Council this 29 day of May, 2023.

Read a third and final time, passed, signed and sealed in open Council this 29 day of May, 2023.

Mayor

Clerk

Schedule "A"
By-Law 2023-

Purpose:

This policy is intended to set out the principles, mandatory requirements and guidelines for the establishment, intention, maintenance, management and accounting treatment for Reserves and Reserve Funds, both obligatory and discretionary.

Reserve and Reserve Funds are financial management tools that are an essential part of a sound fiscal policy to address long-term objectives. The ultimate goal is to fully fund the annual capital plan through current reserves while delivering efficient, effective programs to the citizens of the Township of Edwardsburgh/Cardinal. The key to reserve policies and planning is to balance current and future requirements. Sound programs and financial planning will accommodate future growth while maintaining relatively steady tax rates.

The maintenance of adequate reserves and reserve funds is critical to the Township's long-term viability. The overall reserve amounts established should be between 25% and 50% of the annual operating expenditures. The amounts should also be used to fund unknown contingencies or liabilities that the Township may incur in the future.

Application and Scope:

The policy applies to all Reserves and Reserve Funds including the general reserves, local boards and corporate reserves, trust reserves and donation reserves.

Principles:

Reserves should be limited to the amounts which meet liabilities, contingencies known or estimated. This includes the decline in value of assets, projects and economic factors. The maintenance of adequate Reserves and Reserve Funds is critical to the Township's long-term financial viability.

Accounting Principles:

As outlined in the Municipal Financial Reporting Handbook, all increases and decreases in reserves are to be reported as appropriations to or from reserves. Reserves are part of municipal equity on the balance sheet. Interest accrued for each reserve fund will be recognized monthly.

Auditing Requirements:

Establishment of new reserves and reserve transactions must be supported by a resolution/by-law of the Township Council.

Legislative Authority:

Section 417 of the *Municipal Act, 2001* allows for the establishment of reserves and reserve funds and outlines the requirements regarding the procedures in allowing for the use of these funds. All reserve transactions must be authorized by the Township Council through the annual budget process and by resolutions prior to the transfer of funds from the operating account. In-year reserve transactions not contemplated during the budget process shall be authorized through a resolution of Council, and will require a budget amendment to be approved by Council. Following the resolution of Council, the Treasurer has the sole authority to perform transactions to reserves. Transfers from reserves shall be for the amount of the actual expenditure/costs up to the approved budgeted amount.

Accountability Framework:

Council Responsibilities

The Role of Council is provided in Section 224 of *the Municipal Act, 2001* as follows:
"It is the role of council,

- a) To represent the public and to consider the well-being and interests of the municipality;
- b) To develop and evaluate the policies and programs of the municipality;
- c) To determine which services the municipality provides;
- d) To ensure that administrative practices and procedures are in place to implement the decisions of Council;
- e) To maintain the financial integrity of the municipality; and,

- f) To carry out the duties of council under this or any other Act. 2001, c.25, s224.”

As such, Township Council is responsible for approving and amending the Reserve and Reserve Funds Policy for the municipality. Council has the responsibility to establish reserves and ensure that transactions to and from reserves are authorized, through the budget process and by specific resolutions. Council has the responsibility to establish reserve funds with a bylaw which indicates the purpose of the reserve fund and will approve any expenditures or investments of these funds.

Chief Administrative Officer Responsibilities

The CAO is responsible for supporting the Treasurer and Council in ensuring the principles and mandatory requirements contained in this policy are applied consistently across all departments. The CAO approves all transfers of funds in excess of \$200,000.00 as per the banking approval limits.

Treasury Department Responsibilities

The Treasury Department (Treasurer) is responsible for:

- Developing and updating this policy as necessary and presenting changes to Council for approval;
- Ensuring that the principles and mandatory requirements contained in this policy are applied consistently across all departments;
- Analyzing reserve status on a regular basis and ensuring that accounting principles are followed,
- Performing the transfers to and from reserves as authorized by Council and,
- Providing a quarterly report to Council on the status and amounts of the each reserve and reserve fund balance to ensure appropriate target levels have been met as outlined in this policy and for other information purposes.

Department Heads Responsibilities

- Informing the Treasurer when reserve transfers are required as per resolution of Council;
- Providing documentation relating to the reserve transfer; and
- Consulting with the Treasurer for advice regarding the interpretation of this policy.

Definitions:

Reserves are unrestricted and are appropriations from net revenue at the discretion of Council, after the provision for all known expenditures. It has no reference to any specific asset and does not require the physical segregation of money or assets as in the case of a reserve fund. A reserve cannot have a revenue or expense of itself, like a reserve fund. The primary source of revenue for reserves is from current operations, usually surpluses at year-end or as a deliberate segregation during budget deliberations to mitigate fluctuations in economic factors, changes in government funding, unanticipated events and contingent liabilities.

Reserve Funds are assets that are segregated from the general revenues of the municipality and are restricted to meet the purpose of the reserve fund as defined by the *Municipal Act 2001*. Obligatory and discretionary reserve funds may be established.

Discretionary Reserve Funds are established in cases where Council wishes to earmark funds to finance a future expenditure for which it has authority to spend money and physically set aside for such purpose. The funds may be used for a number of different purposes, such as known or unknown contingencies (e.g. Building repairs).

Obligatory Reserve Funds are reserve funds that must be created by statute whereby special funds are received or obligated for specific purposes and must be segregated from general revenues of the municipality (e.g. Gas Tax Funds). These funds must be used solely for the purpose prescribed for them by statute.

Establishment of Reserves and Reserve Funds

Types of Reserves

Maintaining adequate reserve balances serves several municipal purposes. These include but are not limited to:

- Category A – Asset Replacement:** established in order to smooth the spikes in operating budgets and smooth out property tax changes when replacing tangible capital assets;
- Category B – Project Reserves:** established to provide cost effective self-borrowing mechanisms to reduce risks associated with interest rate fluctuations;
- Category C – Economic Stability Reserves:** established to buffer against significant fluctuations in the economy that are outside of the township’s control;
- Category D – Contingency Reserves:** established to accommodate contingent, unfunded or known liabilities for current and/or future years;
- Category E – Working Funds Reserve:** established to provide cash flow for operations to eliminate the requirement to borrow funds to meet immediate obligations.

Purpose of Reserves

For each reserve or reserve fund the establishing resolution or bylaw shall have a description of the purpose and how the reserve or reserve fund may be utilized. Current and future areas of risk and exposure to economic volatility need to be identified for each reserve or reserve fund. The purpose of the reserve fund may be legislated.

Lower/ Upper Limits of Reserves

Each reserve shall identify the methodology to be utilized to determine the lower and upper limit of the reserve, how the reserve is replenished and/or the sunset date for elimination of the reserve. Service standards and capital planning and the related performance measures should be used to determine the appropriate limit of the reserve.

Interest Allocation

- 1. Reserve Funds will be invested in accordance with the Township’s Investment Policy. Earnings shall be credited to each separate reserve fund included in the consolidated reserve fund account.
- 2. Interest shall be allocated to each reserve fund based on the actual balance of the reserve fund at the beginning of each month.
- 3. Reserves shall not be invested and are not allocated interest.

Temporary Borrowing from Reserve Funds

Temporary borrowing for the purposes of internal financing is permitted, when justified, adequately supported and authorized by Council. The following conditions must be met to allow borrowing from reserve funds;

- 1. Borrowing must not adversely affect the intended purpose of the reserve fund.
- 2. A plan to repay the reserve fund within a reasonable timeframe is required and must be documented.
- 3. Interest, equivalent to the current Township’s interest earned on the reserve fund bank account, at the time of borrowing, will be applied to the outstanding amount borrowed.
- 4. Where applicable, legislative requirements may apply.

Policy for Reserves

Each reserve shall identify the annual contribution required and provide direction as to transfers to and from the reserve.

Schedule of Reserves and Reserve Funds

Name of Reserve	Account #	Category	Background/ Purpose	Lower / Upper Limit	Policy
Administration	01-3511	A	Established in 2011 when	Lower- 10% of	The Township

			Capital Expenditure Reserve was allocated to separate departments. The purpose is to set aside funds to be used for the upgrades to the Township hall and replacing administrative equipment.	the annual operating expenditures.(\$100,000.00) Upper - \$250,000.00	should include an amount of not less than \$10,000.00 in the annual budget.
Tax Write Offs	01-3512	D	First established with 2012 budget contribution of \$50,000.00. The purpose is to allow for the possibility of large tax write-offs resulting from unsettled ARB decisions, minutes of settlement or request for reconsideration.	Lower - \$100,000.00 Upper- \$200,000.00.	The Township should include an amount not less than \$25,000.00 in the annual budget.
Election	01-3513	B	This reserve is established to provide for the costs of the regular municipal elections which occur every 4 years.	Upper- \$18,000.00	The Township should include an amount of not less than \$6,000 in the annual budget.
Cemeteries	01-3518	A	First established with 2015 budget contribution of \$3,500.00. The purpose is to set aside funds to be used to cover the cost of maintaining township cemeteries.	Lower- \$1,250.00 Upper- \$35,000.00	The Township should continue to include an amount not less than \$3,500 in annual budget.
Name of Reserve	Account #	Category	Background/ Purpose	Lower / Upper Limit	Policy
Fire Department- Vehicles	01-3514	A	Established in 2011 when Capital Expenditure Reserve was allocated to separate departments. The purpose of this reserve is to set aside funds to purchase or replace vehicles	Lower- 25% of the annual operating expenditures (\$140,000.00) Upper- \$400,000.00	The Township should continue to include an amount not less than \$50,000 in annual budget until the upper limit is reached.
Fire Department- Communicatio n- Equipment	01-3516	A	Established in 2014 with a budget contribution of \$20,000.00 to be used to purchase or replace fire department communication equipment.	Upper- \$200,000.00	The Township should continue to include an amount not less than \$20,000 in annual budget until the upper limit is reached.
Fire Department- Buildings	01-3515	A	Established in 2015 with a budget contribution of \$11,000.00 to be used to make improvements to the two fire stations.	Lower- 25% of the annual operating expenditures (\$140,000.00) Upper- \$1,000,000.00	The Township should continue to include an amount not less than \$50,000 in annual budget until the upper limit is reached.
Policing Costs	01-3517	C	First established with 2012 budget contribution of \$25,000.00. The purpose was to cover the possibility of additional billing above the annual estimate provided for in each year's budget. With the new OPP billing model now in place, this is not likely to occur.	Lower - \$ 100,000.00 Upper- \$150,000.00	The Township should include an amount not less than \$10,000.00 in the annual budget.
Building Department	01-3519	C	In order for the Building Department to operate on a cost recovery basis (as set out in sub-section 7.2 of the Ontario Building Code), a reserve was established in	One year's operating budget plus capital requirements as shown in	Any annual surplus from the operations of this department must be transferred into this reserve and any annual

			2011 in which the year's surplus was transferred. The purpose of this reserve is to set aside funds to allow this department to operate from permit revenue.	the long range capital forecast.	deficit will be covered by transfers from this reserve.
Name of Reserve	Account #	Category	Background/ Purpose	Lower / Upper Limit	Policy
Public Works	01-3520	A	Established in 2011 when Capital Expenditure Reserve was allocated to separate departments. The purpose of this reserve is to set aside funds to purchase or replace vehicles, equipment and roads projects.	Lower- 30% of the annual operating expenditures (\$484,000.00) Upper- \$2,000,000.00	The Township should continue to include an amount not less than \$100,000 net in annual budget until the upper limit is reached.
Winter Control	01-3521	D	First established with a 2012 budget contribution of \$20,000. The purpose of this reserve is to have contingency funds set aside to be used to cover any unbudgeted winter control costs which could result from above average winter conditions.	Lower- 25% of annual winter control budget (\$71,000.00) Upper -50% of annual winter operating budget.(\$142, 000.00)	The Township should continue to include an amount not less than \$20,000 in each annual budget until the upper limit is reached. If, during any year, funds from the reserve are required to cover additional costs, the annual contribution will be re-instated until the upper limit is again reached.
Working Funds	01-3540	E	First established many years ago and has been at the current level of \$750,000 since amalgamation. The purpose of this reserve is to provide daily operating funds so that accounts payable funding is always available such as when property taxes and other funding may still be owing to the Township.	Lower- \$750,000.00	The Township (in consultation with the municipal auditor) should review this amount regularly to determine if adjustments to the amount are warranted.
Recreation Reserve	01-3527	A	Established in 2011 when Capital Expenditure Reserve was allocated to separate departments. The purpose of this reserve is to purchase or replace equipment or vehicles or to make improvements to recreation facilities.	Lower- 25% of the annual operating expenditures (\$455,000.00) Upper- \$600,000.00	The Township should continue to include an amount not less than \$40,000 in annual budget until the upper limit is reached.
Name of Reserve	Account #	Category	Background/ Purpose	Lower / Upper Limit	Policy
Planning reserve	01-3528	B	The Planning Act mandates a 5 year update to the Township's Official Plan. It is also required that the Zoning By-law be brought into conformity with Official Plan Updates	Lower- 25% of annual operating budget (\$17,000.00) Upper- \$80,000.00	The Township should include an amount of not less than \$10,000 in the annual budget for the costs of the update to the

					Township's official plan and zoning by-law every 5 years.
Environmental Reserve- Low Lift	01-3522	A	Established in 2011 when Capital Expenditure Reserve was allocated to separate departments. The purpose of this reserve is to make improvements to the low lift station.	Upper- \$100,000.00	The Township should place annual surplus from the system into this account. Once the upper limit is reached half of the reserve should be transferred into to Raw Water Supply System Fund.
Environmental Reserve- Storm Sewer	01-3525	A	Established in 2011 when Capital Expenditure Reserve was allocated to separate departments. The purpose of this reserve is to set aside funds to use on storm sewer infrastructure.	Lower- 25% of the annual operating expenditures (\$28,000.00) Upper- \$250,000.00	The Township should include an amount not less than \$20,000 in each annual budget until the upper limit is reached. If, during any year, funds from the reserve are required to cover additional costs, the annual contribution will be re-instated until the upper limit is again reached.
Landfill Site Closure reserve	01-3526	B	The Township's consultant has advised that the Scott Road landfill site is at capacity. The purpose of the reserve is to set aside funds to pay for site closure costs as well as set up transfer station. The Transfer station may need to be moved or upgraded in the future	Lower- 25% of the annual operating expenditures (\$37,500.00) Upper- \$360,000.00	Reserve balance is at \$91,000.00, Gas Tax funds were used to complete this project in 2016. The Township should include an amount of not less than \$20,000.00 in the annual budget.
Twp Municipal Drain Reserve	01-3529	B	In the 2020 budget, Council approved a contribution to a reserve for future township municipal drainage expenses	Lower- 5% of the annual operating expenses in Agricultural Drainage Budget Upper- \$10,000	The funds are to be utilized to fund the portion of future municipal drainage maintenance that is related to Township owned property.
Insurance Reserve	01-3532	C	In 2023, Council approved the setup of an insurance reserve account to cover future loss deductibles.	Lower – 5% of the annual insurance renewal cost. Upper - \$60,000	The funds are to be utilized to pay any unexpected loss deductible or unforeseen rise in annual premium.

RESERVE FUNDS

- Industrial Park Land- Account # 98-3813**
Background: This fund was established in 2007. Funds from the sale of Township owned industrial park lands are put into this reserve fund for future development needs within the industrial park.
Lower & Upper Limit: Not applicable.
Policy: Future proceeds from the sale of industrial park lands will be deposited to this reserve fund with 25% of those proceeds allocated to the Industrial Park Wastewater Reserve Fund for future capacity upgrades to the

sewage treatment plant in order to allow for continued growth within the Industrial Park.

2. Cardinal Hydro- Account # 98-3807

Background: This fund was established from the proceeds of the sale of the Cardinal Hydro to Rideau St. Lawrence Utilities.

Lower & Upper Limit: Variable

Policy: The annual dividend as a result of the Township's ownership share in that entity and the quarterly interest payments on the loan receivable that is received from Rideau St. Lawrence Utilities is deposited to this reserve fund. The purpose is to use these funds for capital projects within the Village of Cardinal.

3. Gas Tax Grants- Account # 98-3812

Background: Section 6.5 of the Municipal Funding Agreement for the transfer of Federal gas tax revenues to the Township from AMO states that unexpended funds advanced to the Township may be carried over to subsequent years "in a reserve fund account".

Lower Limit: Not applicable

Upper Limit: The maximum carry forward period is 5 years.

Policy: Semi-annual receipts of gas tax revenue are to be deposited into the reserve fund account and authorized expenditures can be moved to general revenues once approved by AMO.

4. Industrial Park & New Wexford Water- Account # 98-3804

Background: This fund is established for capital replacement of the water supply system to the Industrial Park and New Wexford area and to meet requirements set forth in the Township's municipal drinking water licence requirements made under the *Safe Drinking Water Act*.

Lower Limit: The balance should include a value of not less than 25% of the annual operating expenditures.

Upper Limit: Estimated replacement cost of the water supply system over an amortization period as defined by the Water Financial Plan or \$5 million

Policy: This reserve will be funded through rate charges to users of the water system. The Township will include an annual amount of not less than \$30,000 to provide for capital replacement over an amortization period until the upper limit is reached as calculated annually by the Treasurer. A gradual phase-in period may be needed over the next 20 years for affordability purposes.

5. Johnstown Water Wells- Account # 98-3805

Background: This fund is established in 2015 for replacement of water softener & reverse osmosis systems at 7 properties with affected wells.

Lower Limit: Not Applicable

Upper Limit: Estimated replacement cost of the water softener & osmosis systems for all properties.

Policy: The Township should include in their annual budget a contribution amount not less than the minimum contribution for replacement of two systems over a 20-year expected useful life.

6. Raw Water Supply System- Account # 98-3814

Background: This fund was established in 2008. The purpose is to fund the replacement of the low lift pumping station and to meet regulations coming forth through the *Water Opportunities Act* – mainly developing a sustainability plan for all municipal services (water, wastewater & storm).

Lower Limit: The balance should include a value of not less than 25% of the annual operating expenditures

Upper Limit: Estimated replacement of the water supply system over an amortization period.

Policy: The Township should include in their annual budget a contribution amount not less than the minimum contribution for capital replacement over an amortization period, as calculated annually by the Treasurer. Greenfield Ethanol contributes \$20,000.00 annually to this fund and the Township will need to contribute an amount to augment the funds required.

7. Cardinal Water System- Account # 98-3811

Background: This fund at one time was part of the Cardinal Water and Wastewater reserve fund. In 2011, this reserve fund was split into two reserve funds, one for water and one for wastewater. The purpose of the fund is to provide for the replacement of the water infrastructure and to meet requirements set forth in our municipal drinking water licence made under the *Safe Drinking Water Act*.

Lower Limit: The balance should include a value of not less than 25% of the annual operating expenditures

Upper Limit: Estimated replacement of the water supply system over an amortization period as defined by the Water Financial Plan.

Policy: The annual operating surplus or deficit will be funded from this reserve fund and the Township will include in their annual budget a contribution amount not less than the minimum contribution for capital replacement over an amortization period, as calculated annually by the Treasurer. A phase in period of 20 years may be required for affordability purposes.

8. Industrial Park Wastewater System- Account # 98-3803

Background: The purpose is to fund the replacement or expansion (growth) of the sewage collection and sewage treatment plant utilized by properties in the Township industrial park.

Lower Limit: The balance should include a value of not less than 25% of the annual operating expenditures

Upper Limit: Estimated replacement of the wastewater infrastructure within the Industrial Park over an amortization period.

Policy: The Township should include in their annual budget a contribution amount not less than the minimum contribution for capital replacement based on an amortization period, or growth, as calculated annually by the Treasurer. A phase in period of 20 years may be required for affordability purposes.

9. Cardinal Wastewater System- Account # 98-3808

Background: This fund at one time was part of the Cardinal Water and Wastewater reserve fund. In 2011, this reserve fund was split into two reserve funds, one for water and one for wastewater. The purpose is to fund the replacement or expansion of the sewage infrastructure and to meet regulations coming forth through the *Water Opportunities Act* - mainly developing a sustainability plan for all municipal services (water, wastewater & storm).

Lower Limit: The balance should include a value of not less than 25% of the annual operating expenditures

Upper Limit: Estimated replacement of the wastewater system over an amortization period.

Policy: The annual operating surplus or deficit should be funded from this reserve fund and the Township should include in their annual budget a contribution amount not less than the minimum contribution for capital replacement over an amortization period, as calculated annually by the Treasurer. A phase in period of 20 years may be required for affordability purposes.

10. Spencerville Wastewater System- Account # 98-3806

Background: The purpose is to fund the replacement of the sewage treatment system and to meet regulations coming forth through the *Water Opportunities Act* – mainly developing a municipal water sustainability plan for all municipal services (water, wastewater & storm).

Lower Limit: The balance should include a value of not less than 25% of the annual operating expenditures

Upper Limit: Estimated replacement of the wastewater system over an amortization period.

Policy: The annual operating surplus or deficit should be funded from this reserve fund and the Township should include in their annual budget a contribution amount not less than the minimum contribution for capital replacement over an amortization period, as calculated annually by the Treasurer. A phase in period of 20 years may be required for affordability purposes.

11. Industrial Park Investment- HISA Account # 98-3816

Background: This fund was set up as a result of the Township investing the funds from the sale of Industrial Park Land into a High Interest Savings Account with Local Authority Service (LAS) in November 2016. The purpose of this fund is for future development needs within the Industrial Park.

Lower & Upper Limit: Not applicable.

Policy: The funds are held in the high interest savings account with the One Investment Program with LAS. A resolution of council will be required to transfer funds from this account into the general working funds account identifying the purpose of the funds.

12. Ontario Modernization Fund- Account # 98-3817

Background: In April 2019, the Province granted funding to the Township to be used to modernize the business and develop efficiencies that may lead to future cost savings and improved levels of service.

Lower & Upper Limit: Not applicable as only a one-time payment of \$584,335.00

Policy: Resolution of Council 2019-133 states that a council resolution is required to utilize these funds for payment of invoices for modernization purposes.

13. OCIF Formula Based Fund- Account # 98-3818

Background: The Province grants the Township with a formula-based funding through the Ontario Community Infrastructure Fund. This is an obligatory fund that can only be used for eligible infrastructure as defined in the funding agreement. Similar to the Federal Gas Tax Fund, that unexpended funds advanced to the Township may be carried over to subsequent years ``in a reserve fund account``.

Lower Limit: Not Applicable

Upper Limit: The maximum carry forward period is 5 years

Policy: Prior year payments will remain in the fund account and accrue interest until they are used for eligible infrastructure.

14. Dedicated Capital Reserve Fund- Account # 98-3819

Background: In March 2020, the Port of Johnstown committed to providing the Township with an increase of 1.5% in the annual Administration fee. Council passed Bylaw 2020-18 to establish a dedicated capital reserve fund.

Lower & Upper Limit: Not Applicable

Policy: The annual increase in the Port of Johnstown administration fee will be deposited into the fund to be used for future capital development and infrastructure.