

## MANAGEMENT REPORT

**Date:** November 25, 2024  
**To:** Mayor and Members of Council  
**From:** Karmen Krueger, CPA, CA, Director of Corporate Services  
**Report Number:** COU24-144  
**Attachments:** 1) Current Policy Appendices;  
2) Draft New Policy Appendices

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**Title:** Reserve and Reserve Fund Policy Amendments

**Objective:** To propose clarifying language around the HR Salary Contingency Reserve and the Cemeteries, Recreation and Facilities Reserve Funds

**Background:** In 2018, the Reserve and Reserve Fund Policy was approved. The intent at that time was to establish parameters around which Reserve and Reserve Funds could/should exist and to ensure these parameters were consistent with the City's long-term vision. The purpose for each Reserve and Reserve Fund was established, and threshold targets were determined.

In 2022 a fulsome review was completed, and since then there have been a few minor amendments to add new Reserves, clarify language around existing Reserves and Reserve Funds and overall, manage the policy to address evolving conditions.

**Analysis:** Reserve Funds for capital purposes are separated from working capital and stabilization accounts (operating Reserves). Currently, the City's Reserves and Reserve Funds consist of general Reserves, capital/departmental-specific Reserve Funds, obligatory Reserve Funds (where restricted grant funds flow through), and Development Charges Reserve Funds to be used for the established purposes.

Some Reserves and Reserve Funds have planned transfers to them through the budget process. This is most common for the capital Reserve Funds to ensure the capital program can be sufficiently funded.

Some are actively contributed to, based on specific language in the policy, like the Winter Maintenance Reserve, or the Municipal Accommodation Tax Reserve as examples.

Others were established from a single contribution at one point, and might not have a specific funding plan, but funds are for a specific purpose such as the Grand Trunk Reserve.

Once the Reserve and Reserve Fund transactions that are prescribed by the policy are completed each year, if there are cash surpluses left over, these have been historically put into the tax stabilization Reserve to be used for one-time expenses through the year, or to assist with one-time expenses when the budget is created annually.

For the past few years, the City's overall cash surpluses have been due in large part to staffing vacancies. These surpluses, through the budget process have been used to mitigate subsequent year levy pressures. The Treasurer attempts to ensure that funds used in the budget process to reduce the levy impact are offsetting 'one-time' expenses, however, in 2024 over \$3 million was used to reduce the impacts of the budget, the largest historical use.

The recommended reserve balance for the tax stabilization fund is 5% of the previous year's tax levy (2024 = \$80 million). This translates into about \$4 million and a minimum recommended low balance of \$500,000. By industry practices, this is an appropriate level to manage surprises or other unplanned expenditures. Without this, the City has financial risk if something unplanned/significant arose. The projected balance at the end of 2025 based on the preliminary draft budget is \$2.5 million.

The **HR Salary Contingency Reserve** is one of the general reserves that while having a target threshold established, was formed from combining previous reserves under a former Treasurer. No planned contributions have been established before now. With the unprecedented turnover and changes in workforce structure, this reserve has been used for one-off purposes such as gapping the outcomes from a previous salary admin review and unplanned payroll costs due to changes in management staffing. It is now substantially depleted.

After a review of the historic vacancies and how the tax stabilization funds have been utilized, the Treasurer is recommending that a portion of the corporate surplus that relates to staffing vacancies beginning in 2024 start funding the HR Salary Contingency Reserve. The recommended starting point is 25% of the surplus that relates to staffing vacancies (by comparing budgeted salaries and benefits to actuals).

This change will have an impact to the tax stabilization reserve and funds available for those one-time expenses outside of HR related matters, however, this seems a prudent course of action to better manage the volatility of the labour market experienced in recent years.

To illustrate, if the corporation had a \$2 million surplus in a year, and it was demonstrated that \$1 million of this related to staffing vacancies, then 25% of this would be transferred to the HR Salary Contingency Reserve. The result is that the Tax Stabilization would receive \$1.75 million, and the HR Salary Contingency Reserve would

have \$250,000. This strategy would be utilized until such time as the HR Salary Contingency Reserve reached its target balance. Should the need to draw upon the HR Salary Contingency Reserve exceed its contributions, the Tax Stabilization Reserve may be required to supplement the circumstance, as is the case currently.

The **Cemetery Reserve Fund** was established with the purpose 'to fund Cemeteries' and Parks' capital projects.

The **Recreation Reserve Fund** was established with the purpose 'To fund capital projects related to recreation equipment.'

These similar purposes have caused some confusion, so staff are recommending that these funds be consolidated, and renamed '**Recreation, Parks and Cemetery Reserve Fund**'. The purpose of the newly consolidated reserve fund will be updated 'To fund capital projects related to recreation, parks and cemetery'. The balance of the CEME fund would be transferred into the RECR fund and closed. The projected combined balance at December 31, 2024, in the Recreation, Parks and Cemetery reserve funds is \$506,712.

The **Facilities Reserve Fund** (FACI) will continue to be used to fund capital projects related to City Facilities, which includes recreation facilities and other facilities used for administrative purposes. The projected balance at December 31, 2024, in the FACI reserve fund is \$1,382,548.

### **Reserve Fund Targets**

A key element of a reserve fund policy is the target levels. Targets should reflect the municipality's needs, both short and long-term, considering things like cash flow requirements, risk tolerance, rate of return expectations and the time value of money (the concept that the value of a dollar today is worth more than the value of a dollar in the future). The current targets in the policy assessed needs, as well as looking at best practices in other municipalities and are still valid but based on the evolution of asset management planning and sustainability, these targets can be fine tuned even further.

As an outcome of the water and wastewater study currently underway, staff, working with the consultants, have identified some amendments that are recommended to the thresholds of these funds. Currently, the thresholds for the rate stabilization accounts are a bit high, tying up funds for operating fluctuations that are better suited to be directed towards the capital program and infrastructure needs.

This analysis continues and any further recommendations will be presented at a future meeting.

## **Financial Implications:**

### **Financial impact to current year operating budget:**

There is no impact to the 2024 operating budget, as the HR changes will affect year-end adjustments and transfers only. There is no impact relating to the changes for the Cemeteries and Recreation Reserve Funds, as this proposed change is administrative in nature.

### **Financial impact on future year operating budget:**

There is no expected effect but will depend on labour market conditions and staffing trends.

## **Alignment with Strategic Priorities:**

### **Intentionally Change to Support the Future**

This report aligns with this priority as it supports the people-centred approach in decision-making and ensures economic stability for the Human Resources activities of the Corporation.

## **Alignment with One Planet Principles:**

**Not applicable:** This administrative report does not directly align with One Planet Principles.

**Staff Recommendation: THAT Council approve the proposed revision to the HR Contingency Reserve target balances and clarification language;**

**THAT Council authorize the transfer of the Cemetery Reserve Fund into the renamed Parks, Cemetery and Recreation Reserve Fund as outlined in Report COU24-144;**

**THAT Council authorize the closure of the Cemetery Reserve Fund;**

**AND THAT Council support the amendments to the threshold language for the Water and Wastewater Rate Stabilization and Capital Reserve Funds.**

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