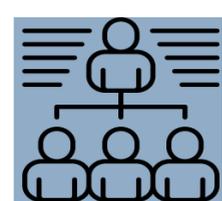


A PRIMER ON RESERVES AND RESERVE FUNDS



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Municipalities in Ontario. All use reserves and reserve funds for various purposes.

HOW RESERVES AND RESERVE FUNDS WORK



Reserves and reserve funds are established by **Municipal Councils** through by-laws. Provincial legislation can also require municipalities to establish reserves for specific types of revenue.



Reserves are typically part of an overall strategy for funding operating programs and projects. These funds help offset unexpected expenses or revenue shortfalls. Money in reserves can come from budget surpluses, property tax levies or other sources of revenue.



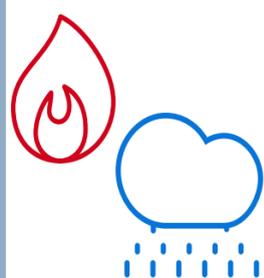
Reserve funds are either obligatory or discretionary. **Discretionary reserve funds** are set by Municipal Councils for specific purposes. Councils can have flexibility to decide how the money is used. **Obligatory reserve funds** are required by provincial statutes or contractual agreements and can only be used for their intended purpose. In Ontario, 45% of money in reserve funds is in obligatory reserve funds.*



Reserves and reserve funds are an important tool for a municipality's long-term financial sustainability. Setting money aside for unavoidable events (like floods) and for capital projects (like road repairs) reduces the need for long-term borrowing or imposing sudden tax increases on current or future taxpayers.

* Statistics based on Ontario Financial Information Return data (2009-2018 trend).

HOW RESERVES AND RESERVE FUNDS ARE A STRATEGIC MANAGEMENT TOOL



Funds can be set aside for uncontrollable, but often predictable events like floods, forest fires, and **pandemics**

Provide one-time or short-term funding for special purposes



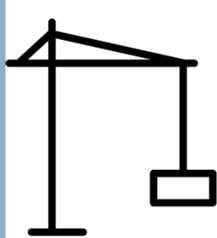
Can be used to maintain/control property tax rates if the economy suddenly takes a downturn

Integrates with and facilitates long-term debt financing strategies



Gives municipalities the flexibility to deal with fluctuating cash flows

Aligns with long-term asset management plans to ensure municipalities can invest in important infrastructure projects for the community



Municipalities are responsible for two-thirds of Canada's infrastructure but only receive 10% of the tax bill.* Municipalities must save and plan ahead for repairs and upgrades

A properly balanced approach to the planning and use of Reserves and Reserve Funds is considered good financial management and is a key consideration for credit rating agencies

* Tassonyi, A. (2015). *An Exploration Into the Municipal Capacity to Finance Capital Infrastructure*, University of Calgary.

In Ontario municipalities,

THE MAJORITY

of reserves and reserve funds are committed either as a result of being an obligatory reserve fund or being set up for specific purposes. Municipalities have limited flexibility on how the majority of reserves and reserve funds are spent.

WHY IT'S IMPORTANT TO USE RESERVES FOR INTENDED PURPOSES

Why using reserves for intended purposes is best practice

- In case of emergency, tax rates and user rates can remain relatively stable. Taxpayers are not burdened by significant increases.
- Money can be saved for major capital projects that benefit communities as a whole.
- Municipalities can continue to practice long-term financial sustainability, and better plan and budget for the future.

Cons of using reserves for unintended purposes

- Adequate funds may not be available to cover future emergencies. Property taxes may need to increase to cover any unexpected losses.
- A lack of funds to maintain a state of good repair for capital infrastructure requirements will lead to decreased service levels.
- Creates a funding gap for projects that the funds were set aside for. Projects will be at risk in the event of economic shocks.

THE EFFECTIVE USE OF RESERVES AND RESERVE FUNDS SUPPORTS MUNICIPAL LONG-TERM FINANCIAL SUSTAINABILITY