



The Corporation of the Municipality of Red Lake  
**FINANCIAL SERVICES AND CONTROL**  
**POLICY MANUAL**

<b>Subject:</b> Reserves and Reserve Funds	<b>Approval Date:</b> April 15, 2024	<b>By-Law No.</b> 20-2024
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4.5 RESERVES AND RESERVE FUNDS

1. PRINCIPLES AND OBJECTIVES

The guiding principles for reserves and reserve funds shall be:

a) Budget and Strategic Financial Plan

Reserves and reserve funds shall form an integral component of the Municipality's budget and strategic financial plan.

b) Liquidity

Reserves and reserve funds shall be kept at an adequate level to ensure the Municipality has sufficient cash flow to meet its financial obligations; including but not limited to:

- i. Replace and rehabilitate capital infrastructure assets as required;
- ii. Supply funds for new capital assets identified in the Municipality's long-term plans, or that arise from time-to-time;
- iii. Fund long-term contingencies and potential liabilities; and
- iv. Provide a buffer for significant unanticipated expenditures, or loss of revenues beyond the control of the Municipality.

c) Intergenerational Equity

Reserve and reserve fund balances shall be maintained to support the principle of intergenerational equity whereby the generation of citizens who benefit from an investment are also responsible for financing it to the greatest extent possible.

d) Credit Rating and Cost of Borrowing

Reserve and reserve fund balances impact the Municipality's credit rating and associated cost of borrowing thus at a minimum, reserve and reserve fund balances shall be maintained at levels that support the maintenance of the Municipality's credit rating.



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e) Reserve and Reserve Fund Types

The type of reserves and reserve funds the Municipality shall maintain are as follows:

- i. **Obligatory** - A reserve fund created when a senior government statute and/or agreement requires that revenue received for special purposes be segregated from the general revenues of the municipality. Obligatory reserve funds are to be used solely for the purpose prescribed for them by statute or agreement.
- ii. **Discretionary** - A reserve or reserve fund created by Council to set aside revenue and/or cost savings to finance a future expenditure for which Council has the authority to spend money.

The primary objectives for reserves and reserve funds shall be in priority order:

f) Adherence to Statutory Requirements

- i. It shall be the Municipality's practice to establish and maintain segregated reserve funds that meet all statutory obligations.
- ii. Reserves and reserve funds shall be managed in accordance with the Municipal Act, 2001, as amended, this includes:
  - Section 10 (2) authorizing single-tier municipalities to pass by-laws respecting accountability, transparency and financial management;
  - Section 290 (2) the budget shall set out the estimated revenues and expenditures of reserves and reserve funds contained within a municipality's budget;
  - Section 291 covering multi-year budget requirements of municipalities;
  - Section 417 (3) that money raised for a reserve fund shall be paid into a special account and shall be invested only in securities or classes of securities prescribed;
  - Section 418 (3) as allowed by the Corporation, shall combine money held in any fund (including General, Capital and Reserves and Reserve Funds) for investment purposes; and
  - Section 418 (4) that earnings from combined investments shall be credited to each segregated fund in proportion to the amount invested in it.



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iii. Reserves and reserve funds shall be established by Council resolution which governs the purpose, funding sources, and drawdowns of the fund.

g) Promotion of Financial Stability and Flexibility

i. It shall be the Municipality's practice to maintain adequate reserves and reserve funds within the following categories to achieve long-term financial stability and flexibility (see definitions for detailed description of categories):

- Obligatory,
- Capital Asset Renewal and Replacement,
- Capital Asset Growth,
- Special Projects and New Initiatives, and
- Contingencies/Stabilization and Risk Management.

ii. The Municipality shall strive to maintain reserve and reserve fund levels in line with public service associations best practices (Municipal Finance Officers Association (MFOA), Government Finance Officers Association (GFOA), Public Sector Accounting Board (PSAB), etc.), bond rating agencies standards and other municipalities with comparable credit ratings.

h) Provision for Major Capital Expenditures

i. It shall be the Municipality's goal to maintain adequate reserves and reserve funds to replace and rehabilitate major capital assets, as required, and to provide for new capital assets that have been identified in the long-term capital plan. To achieve this goal, the following budget practices will be applied where applicable:

- Reserve funds for the full cost of replacement or rehabilitation of major assets will be funded from ongoing operations, when possible, at a rate which reflects the consumption of that asset by current ratepayers. Contributions to these funds will commence in the fiscal year that the asset is acquired or put into service and will be based on an estimate of the useful life of the asset.
- Obligatory reserve funds will be maintained for community infrastructure and community building fund related capital projects.



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- i) Reduce Tax/Rate Supported Debt
  - i. When appropriate, the Municipality shall use reserve and reserve fund balances as a source of debt substitution for capital projects which were previously approved with debt financing.
  - ii. If discretionary reserves and reserve funds are below established targets, all or a portion of the future debt servicing cost savings resulting from reserve and reserve fund balances applied towards debt substitution shall be considered for future contributions to discretionary reserves or reserve funds at the discretion of the Municipality Treasurer, it being noted that such contributions are subject to Council approval through the Municipality's budgetary process.

**2. RESERVE AND RESERVE FUND MANAGEMENT**

- a) Establishment and Modification of Reserves and Reserve Funds:
  - i. Reserves and reserve funds shall only be established or modified if they are supported by a financial plan identifying the funding needs, targets, contribution sources, projected drawdowns and investment of funds.
  - ii. Target funding levels shall be established for every reserve and reserve fund. Methods for calculating reserve and reserve fund targets shall be determined on a case-by-case basis considering the following:
    - Purpose of fund,
    - Certainty of end needs,
    - Best practices/standards regarding the identification of need and target balance levels (MFOA, GFOA, PSAB, etc.), and
    - Economic factors.
  - iii. Reserve and reserve fund balances and associated targets shall be reviewed periodically to ensure adequate reserve and reserve fund levels are maintained for a ten-year period.
- b) Investment of Reserves and Reserve Funds:
  - i. Reserves and reserve funds shall be invested while ensuring adequate liquidity is maintained;



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- ii. Reserves and reserve funds shall be invested in accordance with the Council approved Investment Policy;
- iii. Investment income earned on reserve funds shall be recognized as revenue in each specific reserve fund according to its proportionate share of the investment portfolio.

c) Contributions To/Drawdowns From Reserves and Reserve Funds:

- i. Contributions to/drawdowns from reserves and reserve funds shall be made in accordance with applicable resolution, by-law and this Policy.
- ii. Contributions to/drawdowns from reserves and reserve funds shall be approved by Council as part of the annual budget process, or specifically by resolution with the following exceptions:
  - Contributions to/drawdowns from that are a direct result of Council approved by-laws or resolutions such as Surplus/Deficit Policy;
  - Transfer of funds between reserves and reserve funds based upon adequacy analysis or other relate information, at the discretion of the Municipality Treasurer, or designate; and
- iii. Council approved contributions to/drawdowns from reserves and reserve funds not realized shall be reported to Council as part of the budgetary process.
- iv. Contributions to/drawdowns from reserves and reserve funds shall take into account intergenerational equity between current and future tax/rate payers.

d) Lending/Temporary Borrowing of Reserves and Reserve Funds:

- i. Intra-fund lending between reserves and reserve funds shall be permitted to temporarily finance capital and/or operating cash flow deficiencies to avoid external borrowing costs provided that all loans/transfers bear the Municipality's internal rate of return and principal and interest are credited to the appropriate reserve or reserve fund source.
- ii. External loans will not be permitted.



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e) Termination of Reserves and Reserve Funds:

- i. A discretionary reserve or reserve fund shall be terminated (wound down and closed) when the program or project it supports meets any of the following criteria:
  - No longer in the scope of the Municipality's strategic plans;
  - Program commitments have been completed and no future commitments are expected; and
  - The Municipality Treasurer is confident that balances in other areas can mitigate the need to hold any remaining reserve or reserve fund balance.
- ii. Reserves or reserve funds identified for termination shall be reported to Council for review and approval. Reports to Council shall include recommendations regarding the timing of wind down, closure and the allocation of fund balances.

3. STANDARD OF CARE

a) Delegation of Authority

- i. Once Council approves reserves by resolution and reserve funds by by-law, the Treasurer shall have overall authority for the reserves and reserve funds managed by the Municipality.
- ii. The Treasurer may delegate management authority over the reserves and reserve funds managed by the Municipality to a designate.
- iii. The Treasurer, or designate, has the responsibility for setting reserve and reserve fund targets, it being noted targets will be periodically reported to Council through reserve and reserve fund reports (see Reporting Requirements below).
- iv. The Treasurer, or designate shall have overall responsibility for this Policy, and the authority to implement a program for reserves and reserve funds and establish procedures consistent with the content of this Policy. Administrative responsibilities shall include, but are not limited to the following:
  - Determines need for reserves and reserve funds for operating and capital budgets.



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- Sets targets for reserves and reserve funds in line with directives contained in this Policy and other pertinent policies.
- As part of the reporting to Council, reviews and reports on the adequacy and continuing need for reserves and reserve funds managed by the Municipality.
- Preparation and presentation of reports and/or by-laws associated with the establishment, monitoring, or termination of reserves and reserve funds.
- Develops appropriate practices, procedures, and processes for the investment of reserves and reserve funds in line with legislative requirements, the Municipality's Investment Policy and other pertinent policies.
- Prepares the Municipality's long-term strategic financial plan with consideration of appropriate reserves and reserve funds to effectively meet the Municipality's operating and capital budget financing needs.
- Ensures reserves and reserve funds managed by the Municipality are in line with senior government statutes and agreements and other pertinent policies.

b) Reporting Requirements:

- i. The Municipality Treasurer, or designate shall prepare the following reports regarding reserves and reserve funds managed by the Municipality:
  - Annual Audited Financial Statements - the annual audited financial statements shall be prepared in accordance with Public Sector Accounting Standards.
  - Reserve and Reserve Fund Report - a financial plan forecasting reserve and reserve fund balances and a comparison to target objectives shall be prepared periodically based on the most current information available; this report may include the establishment of new, modification of existing and termination of existing reserves and reserve funds.
  - Other reports in line with this Policy shall be brought forward to Council as needed.

4. RESERVE AND RESERVE FUND COMPOSITION

The reserves and reserve funds for the Municipality of Red Lake shall consist of those outlined in Appendix A.

Reserve Name		Capital or Operating	Purpose	Source of Funding	Lower Limit	Upper Limit	Interest Allocation*
Parks and Facilities Reserve	Discretionary - Reserve Fund	Capital	To provide funds for the enhancement or renewal of Municipally owned facilities and parks	Annual budget allocation or donations	N/A	500,000.00	Yes
Health Cluster Reserve	Discretionary - Reserve Fund	As recommended by the Community Health Care Committee	To provide funds for the enhancement of medical services within the Municipality	60% of the annual net surplus from the Community Health Care, Pharmacy and Clinic departments	N/A	N/A	Yes
Water System Reserve	Discretionary - Reserve Fund	Capital	To provide funds for the renewal, rehabilitation or replacement of existing water infrastructure	Annual budget allocation, funded through water rates	N/A	2,500,000.00	Yes
Wastewater System Reserve	Discretionary - Reserve Fund	Capital	To provide funds for the renewal, rehabilitation or replacement of existing wastewater infrastructure	Annual budget allocation, funded through wastewater rates	N/A	2,500,000.00	Yes
Economic Stabilization Reserve	Discretionary - Reserve	Operating	To provide funds to the Municipality to offset any tax losses from significant and prolonged assessment appeals	Annual surplus from operations	250,000.00	Coverage for 7 years of 25% of the highest industrial tax payer	Allocate to annual operating funds
Fire Services Reserve	Discretionary - Reserve Fund	Capital	To provide funds for capital expenditures for the Red Lake Fire Service	Revenue collected through agreement with Fire Marque Inc.	N/A	500,000.00	Yes
Waste and Recycling Services Reserve	Discretionary - Reserve Fund	Capital	To provide funds for capital expenditures related to the long-term needs for waste and recycling management in the Municipality	Annual budget allocation, funded by user fees related to the Transfer Station	N/A	500,000.00	Yes
Contingency Reserve	Discretionary - Reserve	Both	To provide funds for significant unforeseen expenditures as well as required large non-annual expenditures such as election expenses, official plan and zoning reviews etc.	Annual surplus from operations	1,000,000.00	25% of property tax revenue to be recalculated annually	Allocate to annual operating funds
Technology Reserve	Discretionary - Reserve Fund	Both	To provide funds for technology upgrades	Annual budget allocation	N/A	150,000.00	Yes
Capital Equipment Reserve	Discretionary - Reserve Fund	Capital	To provide funding for the replacement or significant rehabilitation of capital equipment	Annual budget allocation	N/A	1,000,000.00	Yes
Roads Reserve	Discretionary - Reserve Fund	Capital	To provide funding for the replacement, rehabilitation, renewal or improvements of Municipal roads	Annual budget allocation	N/A	2,500,000.00	Yes
Accessibility Reserve	Discretionary - Reserve Fund	Both	To provide funding for initiatives that increase the accessibility of the community	Annual budget allocation	N/A	150,000.00	Yes
Development Reserve	Discretionary - Reserve Fund	Capital	To provide funding for development related expenditures	Proceeds from land and property sales	N/A	2,500,000.00	Yes



Airport Reserve	Discretionary - Reserve Fund	Capital	To provide funding for capital expenditures related to the Red Lake Airport	Airport Improvement and Airport Parking Improvement Fees	N/A	2,000,000.00	Yes
Heritage Centre Reserve	Discretionary - Reserve Fund	Capital	To provide funding for capital expenditures related to the Red Lake Heritage Centre building	Donations	N/A	N/A	Yes
Library Reserve	Discretionary - Reserve Fund	Capital	To provide funding for capital expenditures related to the Red Lake and Balmertown Library buildings	Donations	N/A	N/A	Yes
Municipal Accommodation Tax Reserve	Obligatory - Reserve Fund	Both	To provide funds that support tourism and economic development within the Municipality	Municipal Accommodation Tax as collected as outlined in By-Law 83-2020, as may be amended	N/A	N/A	Yes
Community Building Fund (Formerly Gas Tax Fund)	Obligatory - Reserve Fund	Capital	To provide a source of funding for capacity building expenditures under the Municipal Funding Agreement	Canada Community Building Fund allocations	N/A	Contributions must be spent within five (5) years of receipt	Yes
Ontario Community Infrastructure Fund	Obligatory - Reserve Fund	Capital	To provide a source of funding for core infrastructure capital expenditures as outlined in the Municipal Funding Agreement	Ontario Community Infrastructure Fund allocations	N/A	N/A	Yes
Northern Ontario Resource Development Support Fund	Obligatory - Reserve Fund	Capital	To provide a source of funding for capital expenditures required due to impacts from resource development	Northern Ontario Resource Development Support Fund allocations	N/A	Funds must be spend by March 31, 2026	Yes

\*Should any reserves reach their upper limit, any interest earned will be allocated to the annual operating budget