

BY-LAW NUMBER 2017-67

THE CORPORATION OF THE TOWNSHIP OF RIDEAU LAKES

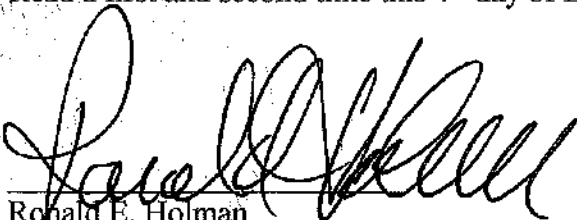
BEING a By-Law to adopt Policy Statements for Budget and Financial Controls, Reserves and Reserve Funds and Capital Financing and Debt Management.

WHEREAS the Township of Rideau Lakes deems it necessary to establish policies that clearly outline budget responsibilities, definitions, timelines and guidelines; requirements for establishing, maintaining and closing reserves and reserve funds; and objectives of capital financing and debt management.

NOW THEREFORE the Council of The Corporation of the Township of Rideau Lakes enacts as follows:

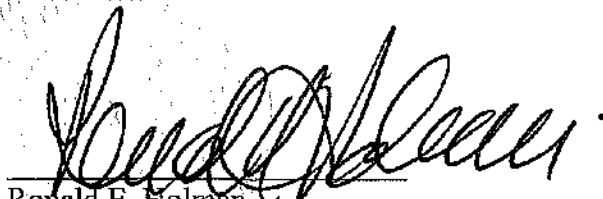
1. That the following Policy Statements and Guidelines, and as attached hereto as Schedules A to C, are hereby approved and adopted:
  - **Schedule A:** Budget and Financial Controls Policy
  - **Schedule B:** Reserve and Reserve Fund Policy
  - **Schedule C:** Capital Financing and Debt Management Policy
2. That Schedules A to C, attached hereto and forming part of this By-Law, may be changed from time to time as deemed necessary by a Resolution of Council.
3. That any By-Laws, Resolutions or Motions that contravene this By-Law are hereby repealed.


Read a first and second time this 4<sup>th</sup> day of December, 2017.

  
\_\_\_\_\_  
Ronald E. Holman  
Mayor


  
\_\_\_\_\_  
Mary Ellen Truelove  
Clerk

Read a third time and finally passed this 4<sup>th</sup> day of December, 2017.

  
\_\_\_\_\_  
Ronald E. Holman  
Mayor

  
\_\_\_\_\_  
Mary Ellen Truelove  
Clerk

**SCHEDULE 2: Budget and Financial Control Policy**

 <b>Rideau Lakes</b>		<b>Treasury Department</b>
By-Law #2017-67	Approval Date:	Revision Date:
	December 4, 2017	September 5, 2018
Sub Department: Treasury	Treasury	
Applies to:	All Departments	

**Policy Name:** Budget and Financial Controls Policy

Developed By: Cynthia Laprade

Date: December 4, 2017

Revised By: Cynthia Laprade

Date: August 28, 2023

Reviewed By: Municipal Services Committee

Date: August 28, 2023

**1. POLICY STATEMENT:**

Budget policies provide the framework for overall fiscal planning and management. The policies set forth guidelines for both current and long-range planning activities. The policies are reviewed annually for adherence and relevance and provide standards against which current budgetary performance can be measured and proposals for future programs or service reductions evaluated.

The Township of Rideau Lakes is committed to demonstrating financial leadership, sustainability, and intergenerational equity. This policy assists in formalizing a defined and transparent process for the development of the Operating Budget and Capital Plan and the on-going monitoring required.

**2. SCOPE:**

This policy applies to all Municipal departments falling within the reporting requirements of the Township of Rideau Lakes.

The Municipal Act requires Council to review and adopt a balanced budget on an annual basis. Debt cannot be issued to balance the operating budget and ongoing operations shall be funded from ongoing revenues. One time revenues should fund one time expenses.

The fiscal year for the Municipality is January 1 to December 31.

## SCHEDULE 2: Budget and Financial Control Policy

### 3. RESPONSIBILITIES:

#### **Council:**

- Sets the direction and identifies priorities; refines drafts and approves the final budget;
- Maintains the financial integrity of the Township by ensuring additional items approved after the budget approval have a funding source to ensure the operating budget remains balanced during the year.

#### **Chief Administrative Officer:**

- Directs and manages staff in achieving Council's direction in the budget;
- Supports Treasurer to ensure that the approved budget is being followed; and
- Supports the Treasurer in the development and monitoring of applicable financial controls, policies and procedures.

#### **Treasurer:**

- Compiles the budget and monitors the adherence to the budget;
- Ensures that the budget maintains compliance with accounting principles and any relevant financial legislation; and
- Develops and monitors applicable financial controls, policies and procedures.

#### **Department Heads:**

- Prepares their budgets in accordance with the timelines provided by Treasurer;
- A Department Head has the responsibility to provide the budgeted level of service approved by Council within the approved operating and capital budgets for their Department and within the corresponding discretionary spending authority as outlined in this policy;
- Ensures all invoices are coded to the appropriate expense account, regardless of whether or not there is a budget for that item, e.g., if there is no budget for a specific item, or the budget has been fully spent the item must be coded to the correct account;
- Monitor their budget and spending on a regular basis to manage their spending within the budget and to prepare Quarterly Forecasts identifying and explaining all significant variances from budget;
- Comply with applicable financial controls, policies and procedures in place.

### 4. DEFINITIONS

The following definitions shall apply within this policy:

**"Base Level Budget"** means that the base level for the budget for the current year shall be the prior year's budget taking into consideration prior year's costs except for one time projects. The base level is set by taking the inputs approved in the prior year's budget and costing them, adjusting them for annualized costs, capital impacts on operations (growth), and inflation where inflation increases.

## SCHEDULE 2: Budget and Financial Control Policy

**"Annualized Costs"** means any costs approved in the prior year's budget that were included for only part of the year are converted to a twelve month period and included in the Base Level Budget. Annualized costs would normally apply to personnel and related costs, and those costs related to municipal service contracts that had price escalations part way through the year, or any that began part way through the year. These costs shall be clearly identified in the Base Level Budget.

**"Pro Forma"** refers to budget requests that have one or more assumptions or hypothetical conditions built into the data. In business terms, pro forma financial statements and reports are prepared in advance of planned transactions and model the anticipated results of the transaction(s). The emphasis is on the projected cash flows, net revenues, and, for taxable entities, taxes. Pro Forma figures should be clearly labeled as such and the assumptions and hypothetical conditions should be clearly explained.

**"Budget Guidelines"** refers to the expectations set by Council pertaining to the current year budget process, including timelines.

**"Multi-Year Budget"** refers to a budget that covers more than one fiscal year.

**"Capital Impacts"** means the additional operating costs that relate to operating or maintaining a capital project that has been completed and is now "in use". This would include items such as an additional vehicle would have an impact on gasoline costs; A new facility would have an impact on operating costs to run the facility. From a financial statement point of view, additional assets have an impact of amortization. This term is used synonymously with Growth Adjustment.

**"Growth Adjustment"** allows for growth that will occur in the Township in the current year. For example, new roads completed in the prior year will require upkeep in the current year and will form part of the growth adjustment.

### 5. Budget Principles

- a. The Township faces fiscal pressures from increasing costs of operating while relatively limited revenue sources are available legislatively. The primary source of sustainable revenue is through the collection of property taxes. Other revenues, such as User Fees, Licenses, Permits, Rent, Registration fees, etc. should be charged at amounts equal to the costs directly related to the programs or services provided to ensure fairness and equity to all taxpayers without putting undue pressure on low-income earners who otherwise could not afford the program or service;
- b. The Township shall strive to have tax rate changes that are reasonable and affordable, while still maintaining the level of service that Council and residents expect, meeting statutory obligations and providing for the needs and equity of existing and future generations. Tax rates should be set at such a level to ensure Township infrastructure can be kept in good condition and replaced as required. A separate tax levy has been created for that purpose. The Township should strive to increase the infrastructure tax levy and rate until the infrastructure funding gap is

## SCHEDULE 2: Budget and Financial Control Policy

eliminated and the reserve is sufficient to replace existing assets when required and without debt;

- c. The operating budget shall be balanced as per the legislative requirements outlined in the Municipal Act. Any shortfall in budgeted revenues versus expenses during a budget period (annual), if funds are not available in existing and appropriate reserves, shall be offset by tax levies in the next budget period, equal to the shortfall;
- d. The Township shall not utilize one-time revenues for ongoing expenses. However, one-time revenues may be used to fund non-recurring expenses or services that can be completed within a specific amount of time without significant disruption to the Township provided it is duly approved by Council;
- e. One-time revenues include, but are not limited to: donations, grants or subsidies from other levels of government, municipalities or residents that are not legislated to recur annually. These one-time revenues may be received during the year and therefore not included in the budget, however, they may be spent as requested by the donor or grantor during the year without being recorded in the budget. They will however be identified to Council through a separate report and included in the Quarterly Forecasts;
- f. All net proceeds of the sale of capital assets should be placed in the infrastructure reserve commencing 2024;
- g. Certain municipal revenues can be termed "unpredictable" as they fluctuate year to year and are not under the direct control of the Township. The budget amount for unpredictable revenues shall be conservative in nature and represents management's "best" estimate at the time of the budget;
- h. Certain municipal expenses can be termed "unpredictable" as they fluctuate year to year and are not under the direct control of the Township, i.e., weather related costs (snow, rain, wind, heat, etc.), changes in the global economy, changes in government legislation. The budget amount for unpredictable expenses shall represent management's "best" estimate at the time of the budget. As these costs related to weather are unpredictable the Township should establish an Extreme Weather Reserve and all year end surplus amounts in accounts that are associated with weather, e.g., winter contractors, winter materials, etc. shall be placed in the Extreme Weather Reserve. This reserve shall then be used to help keep the budgeted costs down, e.g., less conservative budgeting, e.g., only 2 dome fills vs. 3, and to fund deficits during the year related to weather, e.g., costs higher than budgeted for snowplowing, or unexpected flood costs, etc.
- i. Salaries and benefits for full time employees should be budgeted in full every year without regard to possible or unknown vacancies. A vacancy factor of 3% will be budgeted annually on the total budgeted salaries. If there are no vacancies in a given year and a salary deficit occurs then the amount of the deficit shall be drawn from the Vacancy Reserve. If the deficit exceeds the amount in the Vacancy Reserve then this deficit will be absorbed within the total township deficit/surplus. At all times the Vacancy Reserve shall contain a minimum amount of 3% of budgeted salaries. When this amount falls below that the reserve must be replenished the next budget year.
- j. Election costs shall be budgeted each year based on total estimated costs divided by 4. This amount shall be transferred to an Election Reserve until required;
- k. The annual cost of living increase applied to all salaries, including full time, council members and fire fighters shall be the annual CPI increase, from November prior year to November current year. Source of CPI information shall be Statistic Canada,

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<https://www150.statcan.gc.ca/n1/daily-quotidien/230117/dq230117b-eng.htm>

### 6. Operating Budget Preparation and Process:

- a. All detailed budget discussions and priority setting should be held during separate budget meetings, not during regular MSC meetings;
- b. Early June a survey shall be placed on the Township Website to request resident feedback regarding interest in the upcoming budget. The survey should be open for at least 30 days and responses provided to Council at the next applicable meeting;
- c. Based on the feedback received in (b) either a budget survey will be developed, approved by Council and posted on the Township website early August, or a budget presentation will be developed, approved and provided on a timely basis. The survey should be open for 30 days;
- d. Survey responses shall be presented to Council prior to the commencement of the budget and Council, at this time, shall provide general direction and identify key priorities to include in the annual budget. Tax rates should not be discussed until annual funding requirements have been estimated.
- e. The Treasurer shall bring Annual Budget Guidelines to Council for consideration and approval, prior to budget preparation. The Guidelines shall include the annual cost of living increase to be applied to salaries, per the budget principles, the inflation rate to be applied to prior year costs impacted by inflation, the annual budget timelines and meeting dates, Council priorities as previously identified, and any other relevant information;
- f. In November open email access for budget questions using the following email address [budgetquestions@rideaulakes.ca](mailto:budgetquestions@rideaulakes.ca). The Treasurer will endeavor to respond to questions on a weekly basis from November to the February with limitations as identified under para. 20. Budget timelines
- g. Each Department Head shall prepare and their department budgets, including priorities as set by Council and according to the timeline in the Annual Budget Guidelines.
- h. The Operating Budget shall consist of one up-coming budget year and shall include a 9 year forecast which will be included in the 10 year financial sustainability plan which should be updated at this time;
- i. Departments shall identify goals and objectives for the upcoming year that integrate the operating and capital budget request with the Strategic Plan, departmental master plans and other pertinent studies/reports adopted by Council. These goals and objectives as well as a summary of the services provided are to be provided to the Treasurer in the format requested and in accordance with the timelines.
- j. Department Heads shall prepare budget estimates to identify the Base Level Budget requirements at existing service levels. New or improved programs and/or services requested by Council or staff shall be identified separately with costs and justifications for the changes. These changes shall be included in the information provided to the Treasurer under (h);
- k. Department Heads should review the budget estimates for the 9 outer years in the long term financial plan and revised these estimates as required;
- l. Department Heads shall provide estimates of the number of staffing requirements and provide costs and justification for any changes from the Base Level;

## **SCHEDULE 2: Budget and Financial Control Policy**

- m. Revenues/Expenses are to be calculated based on known commodity trends, approved studies/repayments including user fee reports/by-laws and master plan reports, etc.;
- n. The Treasurer shall meet with each Department Head to verify timing, costs and identify external funding sources such as grants and subsidies as well as review all programs and or service levels for potential cuts or rationalizations;
- o. Each new program and/or service enhancement shall be evaluated on the basis of need in the following order:
  - a. Legislative requirement;
  - b. Capital impacts;
  - c. Growth adjustments;
  - d. Cost savings or inherent efficiencies;
  - e. Identified need with self-sustaining revenues available; and
  - f. Identified need with no corresponding revenue possibilities.
- p. Department Heads shall review all program and or service levels for potential cuts or rationalization;
- q. Treasury staff shall compile appropriate operating budgets and summaries to be incorporated into the consolidated budget document;
- r. Department Heads shall review the consolidated operating budget and supplementary information for accuracy, completeness, and adherence to Budget Guidelines;
- s. Department Heads shall prepare a summary of the services provided by their department and divisions, staff numbers for each and any new programs/services included in accordance with (n) and (k) above;
- t. Operating budgets shall be presented to Council for review and recommendation.

### **7. Operating Budget Spending Before Budget Approval**

- a. Prior to the passing of the annual budget, each department shall be allowed an interim appropriation of 40% of the previous year's operating budget and such interim appropriation shall be deemed to be for routine, necessary or statutory purposes unless otherwise directed by Council;
- b. Costs should not be incurred for new programs or service enhancements before the operating budget is established without the prior approval of Council.

### **8. Emergency Spending**

In accordance with the Township's Procurement Policy, where authority has not been given in the Operating Budget for a particular expenditure or line item, no department shall expend funds unless:

- a. Approval was granted by Council through a report outside the budget process prepared by the Manager requiring the expenditure;
- b. An emergency occurs requiring immediate spending and the CAO, or duly authorized authority, approved such emergency spending in accordance with the Township's Procurement Policy and shall be reported to Council at the earliest opportunity;
- c. A state of emergency is enacted for the Township.

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### **9. Operating Budget Reporting**

- a. Quarterly Budget Variance Reports beginning in the second quarter for actuals as of June 30, Sept 30 and Dec 31 shall be presented to Council in July, October and January, respectively. All variances over \$5,000 shall be explained;
- b. These reports shall include a variance analysis for accounts in a format prescribed by the Treasurer;
- c. The Treasurer shall review financial statements quarterly with all Departments and provide assistance in analysis of accounts and preparing forecasts as required;
- d. If at any time during the year, a Department Head becomes aware of a significant operating budget variance, which is generally greater than \$15,000 of the total department's expenses after providing for reductions in other line items, the Department Head shall immediately advise the Treasurer and the CAO and this information shall be brought to the Mayor and Council at the next Quarterly Forecast, or earlier if necessary, and a budget amendment may be required.

### **10. Operating Project Budget**

An Operating Project is normally a significant operating expense that does not occur on a regular basis; i.e. Civic Addressing, Septic Re-Inspection, Election Costs, etc. This budget is used to ensure operating projects due not skew comparative operating results from year to year.

### **11. Capital Budgeting:**

- a. A capital expenditure is defined as a significant expenditure incurred for the improvement or betterment, acquisition or major rehabilitation of buildings, equipment, rolling stock and linear infrastructure used in providing municipal services (including studies undertaken related to such expenditure);
- b. A capital expenditure includes Capital Assets as defined and detailed in the Township's Tangible Capital Asset Policy;
- c. A repair or maintenance expenditure designed to maintain an asset in its original state is not a capital expenditure, unless it will extend the useful life of the asset. Such repairs or maintenance expenses shall be included in the Operating Budget;

### **12. Capital Budget Preparation & Process:**

- a. Council shall provide general direction and identify key priorities at the commencement of the annual budget preparation prior to the production of the Budget Guidelines;
- b. Each Department shall prepare and submit annually to the Treasurer their Capital and Operating Project Budget requests and 9 year forecasts on the forms and in the format prescribed by the Treasurer;
- c. Department heads shall identify, and prioritize the projects and submit this information to the Treasurer in the form and format as prescribed by the Treasurer. Department heads shall also identify the consequences or risks, of not funding a specific item;
- d. The Asset Management Plan shall be the primary document used to prepare the

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### Capital Budget;

- e. Capital projects are to be entered in the budget software against the specific capital asset, e.g. specific road, specific building and the details, or specific asset component should be included in the details section along with the Asset#.
- f. Operating impacts of new capital assets should be considered and included in the operating budget when applicable.
- g. The Treasurer shall meet with each department to verify timing, costs and identify external funding sources (grants, subsidies, fundraising, donations);
- h. Treasury staff shall review internal funding sources such as transfer from reserves, development charges or reserve funds. Treasury staff shall also recommend to Council budgeting for future reserve funding;
- i. The CAO and Treasurer shall meet to rank each project in accordance with the prioritization and information provided by Department Heads;
- j. The Treasurer shall compile the appropriate continuity and cash flow schedules and annual capital budget summaries to be incorporated into the budget document;
- k. Department Heads shall review the compiled capital budget and schedules for accuracy and completeness;
- l. Capital Budgets shall be presented to Council for approval with the summary information required to explain the project and estimates of impact on the operating budget;
- m. The Public shall have opportunity to weigh in on the Capital Budget through Public consultation, by a method that is acceptable by Council, e.g. survey, presentations, etc.

## **13. Capital Project Budget Priority Ranking Process**

- a. Capital budgeting requires Staff and Council to allocate the financial resources of the Township to meet the needs of the Township in the present and future. As a principle and in conjunction with Council's direction, the "best interests" of the community as a whole including intergenerational equity should be at the core of all capital budgeting decisions;
- b. It is recommended that staff rank projects to assist in the determination of which projects should be recommended to be included in the Capital Budget. Any new capital project, that is a capital project not replacing or rehabilitating an existing capital asset, should be fully explained, including reason, cost and prioritization, which will form part of the capital budget document;
- c. The following considerations shall be used to prioritize capital projects:
  - i. Serious threat to Public Health and Safety;
  - ii. Legislative requirements;
  - iii. Lifecycle of project, project can no longer be put off;
  - iv. Committed or phased project continuing from a prior year;
  - v. Growth related projects. These projects should be funded in whole or in part by Development Charges according to the current DC study;
  - vi. Operating cost reduction or efficiency;
  - vii. General benefit to the Township and its citizens;
  - viii. Projects that are not in the Asset Management Plan should be identified as such.

## **SCHEDULE 2: Budget and Financial Control Policy**

### **14. Capital Projects Spending Before the Budget Approval**

- a. Until the Capital Budget has been approved by Council, no department shall incur any costs on any capital project or operating project that was not authorized in prior years unless:
  - i. Approval was granted by Council through a report outside the budget process prepared by the Manager requiring the expenditure;
  - ii. An emergency occurs requiring immediate spending and the CAO, or duly authorized authority, approved such emergency spending in accordance with the Township's Procurement Policy and shall be reported to Council at the earliest opportunity;
  - iii. A state of emergency is enacted for the Township.

### **15. Capital Budget Reporting**

- a. Quarterly Budget Variance Reports beginning in the second quarter for actuals as of June 30, Sept 30 and Dec 31 shall be presented to Council in July, October and January;
- b. The Treasurer shall provide all Department Heads a summary listing of capital and operating project budgets to be used to identify forecasts for each project;
- c. Any capital project that has a variance, over \$10,000, shall have an explanation as part of the quarterly reporting to Council in the form or format prescribed by the Treasurer;
- d. Department Heads shall report any project that is in jeopardy of not being completed or that will vary significantly in costs to the Treasurer and CAO in order to allow for timely identification of surpluses or deficits;
- e. If at any time during the year, a Department Head becomes aware of a significant capital budget variance, which is generally greater than \$15,000 of the total department's capital expenditures after providing for possible reductions in other capital expenditures, the Department Head shall immediately advise the Treasurer and the CAO and this information shall be brought to the Mayor and Council at the next Quarterly Forecast, or earlier if necessary, and a budget amendment may be required.

### **16. Project Completion**

- a. After the completion of the project, the Department Head is to advise the Treasurer that the project is complete.

### **17. Budget Amendments**

- a. Budget amendments should be requested only in circumstances of compelling need, when it can be demonstrated that there will be advantages to the Township from proceeding with the expenditure prior to the next budget year and that delaying the project could be expected to have serious negative impacts on municipal operations and or services.

## **SCHEDULE 2: Budget and Financial Control Policy**

- b. A Budget amendment shall be done if the total operating expenses of the Township and total capital expenditures for the Township are forecast to exceed 1% of the total expenses/expenditures budgeted;
- c. Budget amendments may also be requested in situations where a projected revenue shortfall dictates that reductions in expenses may be required or alternate revenue sources shall be identified;
- d. Requests for budget amendments shall include estimated expenses/expenditures, estimated revenues and the purpose or rationale for proceeding. This information shall be submitted to the Treasurer for review before being submitted to the CAO and Council;
- e. After considering the request from the Department Head and the recommendation of the Treasurer, the CAO will determine whether the proposed amendment should be referred to Council or deferred to the following budget year;
- f. If it has been determined that the budget amendment will be recommended to Council for consideration, the Department Head will prepare the necessary report for Council. It shall include complete details and shall state that it is a "Budget Amendment". Details on how the amendment is to be funded shall be provided. The report shall be accompanied by the approval of the Treasurer indicating that the proposed amendment has been reviewed and that the approach is reasonable;
- g. Council may approve the amendment by resolution (notwithstanding the fact that the budget is adopted as a schedule to a by-law.);
- h. Public notice of budget amendments shall be in accordance with existing legislation or by- law.

### **18. Administrative Budget Adjustments**

- a. The Annual Budget is adopted by Council by-law in accordance with Section 290 of the Municipal Act. The budget is a legal document which serves as a plan for operations in the current year. The budget establishes priorities, allocates resources among various activities, determines service levels and authorizes expenses/expenditures for the year;
- b. Department Heads will be held accountable for spending within their departments and will take necessary measures to ensure, where possible, that expenses/expenditures do not exceed budget allocations for the department as a whole. Consideration shall be given for unpredictable circumstances, e.g. extreme weather;
- c. It is recognized that amounts budgeted for each general ledger account are estimates and that there may be minor variations between budgeted and actual amounts within accounts. These variances will not be considered budget amendments requiring Council approval;

## SCHEDULE 2: Budget and Financial Control Policy

### 19. Budgeting for Amortization and Future Liabilities:

- a. According to standards established by the Public Sector Accounting Board (PSAB), municipalities shall record all expenses incurred during the year. Some of these expenses will not have to be paid for many years. This creates long-term accounting liabilities which are reflected on municipal financial statements but are unfunded, <sup>1</sup> i.e. liability for closure and post closure of solid waste landfill sites;
- b. Municipalities currently have flexibility regarding the amount they set aside to pay for future liabilities. Municipalities may exclude certain expenses such as amortization, post-employment benefits and solid waste landfill closure costs, from their budgeted amounts, however Ontario Regulation 284/09 indicates that the municipality shall, before adopting a budget for the year that excludes any of the expenses noted in this section, have the Treasurer prepare a report about the excluded expenses and adopt the report by resolution. This report shall include an estimate of the change in accumulated surplus of the municipality resulting from the exclusion of these expenses and an estimate of the impact of the exclusion of amortization on the future tangible capital asset funding requirements of the municipality;
- c. Municipalities have flexibility in how much they set aside to pay for future liabilities. Therefore, the payment schedule for unfunded liabilities may vary from year to year. However, budgeting for consistent spending each year, rather than the actual "peaks and valleys" of spending, will allow annual budget allocations to be more consistent and the impact of costs to be spread over many years;
- d. Unfunded liabilities should have a plan for funding. Municipalities with unfunded liabilities will be pressed to generate revenue to pay off or fund the liabilities. A municipality without a funding plan for unfunded liabilities is moving obligations and pressures from the current taxpayers to future taxpayers or from the current budget to future budgets. A best practice is to adopt a funding plan that best suits municipal circumstances;
- e. The Treasurer shall present to council, each budget year, a recommendation for funding amortization and unfunded liabilities, and in addition, will provide a report as required under Ont. Reg. 284/09 if the funding proposal is not adopted by Council.

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<sup>1</sup> An unfunded liability is an accounting liability that is not covered by existing assets, savings or investments. Since money has not been set aside to settle the liability, it is important for the township to plan for how it will pay for these liabilities in the future. When an accounting liability matches the amount set aside to pay for it, the liability is fully funded.

## 20. Budget Process

The budget process is a continuous improvement process which includes but is not limited to:

- a. Public consultation process;
- b. Council establishing current year budget priorities;
- c. Budget planning, including guidelines;
- d. Budget preparation with inputs from all stakeholders;
- e. Finance budget review;
- f. Management budget review;
- g. Council budget review and recommendations;
- h. Review and set proposed tax rates;
- i. Budget and business plans to council and public;
- j. Budget and business plan presentations, public consultation and finalization;
- k. Budget bylaw adoption; and
- l. Monitor, control and report.

## 21. Budget Timelines

The budget process includes but is not limited to the following proposed timelines with the related roles and major deliverables. The Annual Budget Guidelines will provide further details of timelines.

Date	Deliverable	Roles
<b>June 1</b>	<ul style="list-style-type: none"> <li>▪ Budget Survey will be posted on the Township website to determine resident interest in the budget. Survey will be open for 30 days.</li> </ul>	<p>Treasurer will prepare the survey, Council approve. Staff to place survey on website and provide Treasurer with results.</p>
<b>July GG MSC</b>	<ul style="list-style-type: none"> <li>▪ The survey noted above will be presented to Council along with a public communication strategy for upcoming budget;</li> <li>▪ If a survey is the chosen form for budget participation, the survey will be developed and provided to Council for review and approval;</li> <li>▪ The approved survey will be posted on the township website prior to August 15<sup>th</sup> and will be open for 30 days to respond.</li> <li>▪ If a budget presentation is the</li> </ul>	<p>Treasurer to report to Council on June survey and will prepare the budget survey or provide input related to a public budget presentation; Council to review, revise and approve budget survey; Staff to put survey on website and provide Treasurer with results of survey.</p>

	<p>chosen form for budget participation a presentation will be prepared and delivered to Council in an appropriate timeline for their approval prior to presenting to the public.</p>	
<b>September GG MSC</b>	<ul style="list-style-type: none"> <li>▪ At GG MSC an updated Long Term Financial Sustainability Plan to be brought to council that includes current budget year and 9 outer forecast years including any other items as requested by Council.</li> </ul>	Treasurer, Council
<b>September/October</b>	<ul style="list-style-type: none"> <li>▪ Separate Budget Meeting: survey responses will be provided to Council. At this meeting Council will discuss/identify priorities to be included in the budget.</li> <li>▪ Tax rates should not be discussed until annual cost estimates are prepared.</li> <li>▪ Separate Budget Meeting: After Priority Setting Meeting Treasurer brings Budget Guidelines to Council – will include list of Council priorities identified earlier.</li> <li>▪ Treasurer brings 3Q Report to Council GG MSC;</li> <li>▪ Council can refine budget priorities identified earlier.</li> </ul>	Treasurer, All Managers, CAO
<b>November</b>	<ul style="list-style-type: none"> <li>▪ Departments enter budgets in budget software including all Council priorities and recommendations; (due date for completion Dec 15)</li> <li>▪ All department heads are to meet with Deputy Treasurer to identify staffing requirements and salaries first week Dec;</li> <li>▪ Deputy Treasurer to enter all staff salaries and benefits in budget software first week Dec;</li> <li>▪ All department heads are to provide a written summary of the services and programs provided</li> </ul>	All Department Heads Deputy Treasurer

	by their department and divisions in the format provided by the Treasurer, including the number of staff (full time, parttime, contract, student) (due date Dec 15)	
<b>November</b>	Treasury department preparation for interim audit. Interim Audit	
<b>November</b>	<p>Open email access for budget questions, <a href="mailto:budgetquestions@rideaulakes.ca">budgetquestions@rideaulakes.ca</a></p> <p>Residents will be able to email the Treasurer and ask questions about the budget. Questions may be asked about the upcoming budget - items in the budget or asking for explanation of the upcoming budget vs. prior year budget variances, or requesting clarification of any item included in the budget or how to read the budget information or how to find an item in the budget. Emails will be answered starting in November up to the end of February.</p> <p>Emails requesting items that residents wish to be included in the budget should be forwarded to the member of Council for their action.</p> <p>Additionally, Notice to residents regarding upcoming budget meetings will be provided on the website meeting calendar and news and via social media outlets, including facebook and e-news</p> <p>The Treasurer will endeavor to respond to questions on a weekly basis, but this will be dependent upon the number of emails and the questions.</p> <p>Questions that are derogatory,</p>	

	<p>demeaning or insulting in nature will not be answered.</p> <p>The Treasurer will answer a maximum of 2 questions per resident. Additional questions will be answered if time permits.</p> <p>All responses will be copied to all of Council.</p>	
<b>Dec 15</b>	<ul style="list-style-type: none"> <li>▪ All budgets should be in the budget software by this date;</li> <li>▪ All written narratives describing department and section services/programs provide are due</li> <li>▪ All salaries and benefits should be entered in budget software by this date.</li> </ul>	<p>All department managers</p> <p>Deputy Treasurer to enter salary/benefit info after meeting with managers</p>
<b>December (mid)</b>	<p>CAO/Treasurer review and finalization of 1<sup>st</sup> draft of Budget to be presented early January.</p> <p>With Long Term Financial Sustainability Plan</p> <p>With identification of replacement plan per AMP vs. Draft Budget</p>	<p>Treasurer, CAO, Managers</p>
<b>January</b>	<p>1<sup>st</sup> Draft Operating &amp; Capital Budget presented to Council at a Special (separate) budget meeting; Draft budget to be forwarded to Council with at least 6 days to review; 2<sup>nd</sup> draft to be delivered mid-February.</p>	<p>Treasurer, Clerk, Council</p>
<b>January – after 1<sup>st</sup> Draft</b>	<p>General survey posted to request public input to 1<sup>st</sup> draft – results to be brought to January GG MSC therefore only 3-5 days to close survey. Council at this time to identify any additional changes.</p>	<p>Treasurer, Clerk</p>

<b>February</b>	Mid Feb – 2 <sup>nd</sup> Draft Budgets presented to Council and final approval requested. If necessary 3 <sup>rd</sup> draft to be returned before end of February.	Treasurer, CAO, Department Heads, Council
<b>1<sup>st</sup> Monday, March</b>	Final Budget Adoption and Tax Rates, after receiving School Board and County rates.	Treasurer, CAO, Council
<b>March – full month</b>	Treasury department year end close of accounts, preparation for year end audit, capital inventory annual update, preparation of audit worksheets and reconciliation all accounts, prepare Financial Statements and FIR.	Treasurer and all treasury staff

## **22. Public Notice:**

Public Notice of the budget and/or budget amendments shall be in accordance with legislation or existing by-laws.

## **23. Policy Review**

This policy shall be reviewed prior to the initiation of the budget process of the first year of each term of Council, or as deemed necessary.

**SCHEDULE "B"**  
**THE CORPORATION OF THE TOWNSHIP OF RIDEAU LAKES**

<b>TREASURY POLICY</b>	<b>By-Law No. 2017-67</b>	<b>Approval Date:</b>	<b>Revision Date:</b>
		<b>December 4, 2017</b>	
<b>Title:</b>	<b>Reserve and Reserve Fund Policy</b>		
<b>Applies to:</b>	<b>All Departments</b>		

**1. Policy Statement:**

The Municipal Act, 2001, section 290 provides that a municipality's budget shall set out amounts to be paid into and out of reserves. A municipality may establish reserves or reserve funds for any purpose for which it has authority to spend money.

**2. Purpose:**

The purpose of this policy is to establish consistent principles, standards, and guidelines for the establishment, maintenance, management, and accounting of reserves and reserve funds.

a. The primary purposes for reserves and reserve funds is:

- i. Adherence to statutory requirements; (*e.g. Development Charges, Cash in Lieu of Parkland, Gas Tax*)
- ii. Promotion of financial stability, flexibility and to provide for buffers against significant fluctuations in the economy; (*Operating Reserve*);
- iii. Reduce the volatility in the tax rate due to spikes in operating costs or infrastructure requirements; (*e.g. Capital Infrastructure Reserve and Operating Reserve*)
- iv. Providing a buffer to protect against budget deficits caused by unpredictable items such as weather, changes in government legislation; (*e.g. Contingency Reserve*)
- v. Provision for major capital expenditures; (*e.g. Capital Infrastructure Reserve*)
- vi. Smooth expenses which would otherwise cause fluctuation in the operating budget; (*e.g. Operating Reserve*);
- vii. To take advantage of financial opportunities, such as cost sharing grants that may arise during the budget year where funds were not budgeted; (*e.g. Financial Opportunities Reserve*).

**3. Definitions:**

In this policy, the following definitions are used:

- a. **"Deferred Revenue"** means revenue that is considered a liability on the Township's financial statements until it becomes relevant to current operations, such as prepayment received for goods or services that have not yet been provided. Some Deferred Revenue is set aside in obligatory reserve funds for a specific purpose as required by legislation, regulation, or agreement such as Development Charges, Cash-in-Lieu of Parkland, and the Gas Tax.
- b. **"Discretionary Reserve Fund"** means Reserve funds created at the discretion of the Council whenever revenues are earmarked to finance future expenditures of a purpose designated by the Council.
- c. **"Obligatory Reserve Fund"** means Reserve funds that are required by legislation or agreement to be segregated from the Township's general revenues for a special purpose or for works to be undertaken on behalf of the contributor. These funds are classified in the financial statements as Deferred Revenue, i.e. Development Charges, Cash in Lieu of Parkland, Gas Tax.

- d. "**Reserve**" means an allocation of accumulated net revenue that makes no reference to any specific asset and does not require the physical segregation of money. Established primarily for the purpose of providing working funds. A reserve cannot have a revenue or expense of itself, like a reserve fund.
- e. "**Reserve Fund**" means a fund that is segregated and restricted to meet a specified purpose and includes both an obligatory reserve fund and a discretionary reserve fund where funds are deposited in a separate bank account.

#### **4. Responsibilities:**

##### **a. Municipal Council**

Municipal Council shall:

- i. In accordance with the Municipal Act 2001, Section 224, develop and evaluate policies, ensure that administrative policies, practices, and procedures and controllership policies, practices, and procedures are in place and maintain the financial integrity of the municipality.
- ii. Establish reserves and ensure transactions to and from reserves are authorized, through the budget process or by specific resolutions for (reserves) and by-laws (for reserve funds).

##### **b. Chief Administrative Officer**

The Chief Administrative Officer shall:

- i. Support the Treasurer in ensuring the principles and mandatory requirements contained in this policy are applied consistently across all Township departments.

##### **c. Treasurer**

The Treasurer shall:

- i. Develop and update this policy as necessary and present changes to Council;
- ii. Ensure that the principles and requirements contained in this policy are applied consistently across all departments;
- iii. Perform the transfers to and from reserves and reserve funds as authorized by the Council;
- iv. Recommend strategies annually for the adequacy of reserve levels during the budget process, and if required at other times throughout the year; and
- v. Report to the Council the reserve balances and forecast as part of the annual budget approval process and as required by legislation.

##### **d. Department Managers**

Department Managers shall:

- i. Provide the Treasurer with the most current capital asset information to be used in the assessment of the adequacy of capital lifecycle reserves;
- ii. Inform the Treasurer when reserve or reserve fund transfers are required; and
- iii. Consult with the Treasurer regarding interpretation of this policy.

#### **5. Establishment and Closing of Reserve Funds:**

##### **a. Discretionary Reserve Funds:**

- i. Council, on the recommendation of the Treasurer, may establish a discretionary reserve fund and shall establish obligatory reserve funds;

- ii. A discretionary **reserve fund shall be established through by-law.**  
The by-law shall clearly identify the name of the reserve fund, the funding method and the purpose for the reserve fund, as well as the minimum and maximum target level;
- iii. Reserve funds must be maintained in a separate bank account and earn interest;
- iv. A discretionary reserve fund can only be used for the identified purpose, unless Council amends or repeals the establishing by- law; and
- v. Discretionary reserve funds shall be subdivided into operating; capital; or specific use.

**b. Obligatory Reserve Funds:**

- i. Obligatory Reserve Funds are established through either terms of an agreement which is entered into by the Municipality or through legislation from a higher level of government. Obligatory reserve funds are subdivided into operating or capital as required and are typically for a specific item, i.e. Development Charges, Cash in Lieu of Parkland; Gas Tax;
  - ii. Obligatory Reserve Funds must be maintained in a separate bank account and earn interest.
- c. A reserve fund can be recommended only if at least one of the following applies:
- i. A mandatory obligation exists, either pursuant to legislation or contract;
  - ii. The funds are intended for purchasing or maintaining capital assets;
  - iii. The funds are donated for a specific purpose;
  - iv. The funds are intended to fund a future liability.
- d. A report which recommends the establishment of a reserve fund must include the following:
- i. Statement of purpose;
  - ii. Initial contribution and contribution plan, if applicable;
  - iii. The minimum and maximum target level;
  - iv. Contribution policy.
- e. The By-law establishing the Reserve Fund shall be required to be repealed in order to close a Reserve Fund.

**6. Establishment and Closing of Reserves:**

- a. Reserves will be maintained to meet one of the following purposes of the Municipality:
  - i. **Capital Asset Replacement and Project Reserves - established to avoid spikes in capital budgets** and large fluctuation to property taxes; and to provide cost-effective, self-borrowing mechanisms to reduce risks associated with interest rate fluctuations;
  - ii. **Contingency Reserves** - established to accommodate contingent, unfunded, unknown or known liabilities (where the amount is unknown) for current and/or future years;
  - iii. **Operating (Working) Reserves** - established to provide cash flow for operations to eliminate the requirement to borrow funds to meet immediate obligations.
- b. **Reserves** can be established through an inclusion in the annual operating or capital budget which is approved by Council or through resolution of Council.
  - i. The budget document or resolution will clearly identify the name of the reserve being created and the purpose of the reserve.
  - ii. A reserve may be amended through resolution.
  - iii. A resolution of Council will be required to close a reserve.

## **7. Maintaining Reserve and Reserve Funds:**

- a. Each reserve and reserve fund when established should have minimum and maximum target levels. All reserves and reserve funds should be reviewed on annual basis, during the budget process, to ensure these targets are achieved, and if not, the Treasurer shall identify such to Council and make recommendations on how to achieve the required targets. If target levels were not established at the time of creation of the fund then minimum and maximum targets will be recommended by the Treasurer during the annual budget process;
- b. In order to achieve maximum flexibility, when establishing a reserve or discretionary reserve fund, the intended use should be defined in more general terms such as "facilities" rather than "hockey arena";
- c. The Treasurer shall ensure that funds in the reserve or reserve fund that are earmarked for a specific project are easily identifiable to management and Council;
- d. Approval of funding to and from the Reserves and Reserve funds will be in accordance with the Municipality's established Budget Policy and reports to Council as referred to in this policy;

## **8. Temporary Reserve Fund Borrowing:**

Temporary borrowing to cover a short term reserve deficit, interim servicing requirements, or internal financing is permitted, when justified, adequately supported and authorized by Council.

The following conditions must be met in order to allow borrowing from reserve funds:

- a. Borrowing must not adversely affect the intended purpose of the reserve;
- b. A plan to repay the reserve within a reasonable timeframe is required and must be documented;
- c. Interest, equivalent to the Township's interest on investments, will be applied to outstanding amounts borrowed;
- d. Where applicable, legislative requirement may apply, e.g. the Development Charges Act permits inter-fund borrowing only between development charge reserve funds and prescribes a minimum rate, i.e. Bank of Canada prime rate as of the document approval date, updated on the first business day of every January, April, and October.

## **9. Interest Allocation:**

- a. Reserve funds will be invested in accordance with the Municipality's approved investment policy. Earnings shall be credited to each separate reserve bank account that invested the funds;
- b. Where multiple reserve funds are included in one bank account, interest shall be allocated to reserve funds on a monthly basis based on the actual balance of the reserve fund;
- c. Reserves do not have separate bank accounts and therefore interest is not allocated.

## **10. Annual Reporting for Reserve and Reserve Funds:**

Reporting of Reserves and Reserve Funds will occur through the following processes:

- a. A continuity schedule will be included with the annual budget;
- b. As required under development charge legislation, the Treasurer will provide a report to Council on Development Charges. This report is to be presented to Council prior to May 31<sup>st</sup> of each year;
- c. As required under the Planning Act, the Treasurer shall report to Council on the Cash in lieu of Parkland Reserve Fund;
- d. Year-end audit and financial statements - balances of reserves, both obligatory and discretionary reserves and reserve funds will be presented with note disclosure and comparative figures as required to meet the Public Sector Accounting Board (PSAB) reporting standards; and

- e. Where required, reporting to Council or other agencies may exist for reserved residual balances related to grants or other contributed funds (e.g. Federal and Provincial Grants).

**11. Operating Surplus:**

- a. The Treasurer shall recommend to council an appropriate reserve allocation of any operating surpluses not required to fund reserve balance thresholds.

**12. Operating Deficits:**

- a. In the event of an operating deficit, the Treasurer, with the approval of the CAO, may be authorized by Council to:
  - i. Transfer the necessary funds from the Operating Reserve; and
  - ii. If a deficit still remains, the amount shall be carried forward to the subsequent years' budget in accordance with the provisions of the Municipal Act and staff will be directed to review their budgets to find savings equal to the unfunded deficit amount.

**SCHEDULE "C"**  
**THE CORPORATION OF THE TOWNSHIP OF RIDEAU LAKES**

<b>TREASURY POLICY</b>	<b>By-Law No. 2017-67</b>	<b>Approval Date:</b>	<b>Revision Date:</b>
		<b>December 4, 2017</b>	
<b>Title:</b>	<b>Capital Financing and Debt Management</b>		
<b>Applies to:</b>	This policy applies to the issuance of all debt and resulting repayment terms, including capital lease financing arrangements.		

**1. Policy Statement:**

The Township of Rideau Lakes is committed to demonstrating financial leadership, sustainability and intergenerational equity. The Township recognizes that one of the keys to sound financial management is the development of a formal capital financing and debt policy that is integrated into a broader long term financial sustainability plan.

This is a policy governing the use and administration of capital financing and debt.

**2. Purpose:**

The purpose of this policy is to:

- a. Establish objectives, standards of care, reporting requirements and responsibilities for the prudent financing of the Township's operating and infrastructure needs;
- b. Enhance the quality of decision making by promoting consistency;
- c. Establish the parameters regarding the purposes for which debt may be issued, the types and amounts of permissible debt, the timing of issuance and procedures for managing outstanding debt.

**3. Definitions:**

In this policy, the following definitions are used:

- a. **Act** means Municipal Act, 2001
- b. **Amortizing Debenture** – debentures for which the total annual payment (principal and interest) is approximately even throughout the life of the debenture.
- c. **Annual Repayment Limit (ARL)** means the maximum amount of annual debt servicing costs that a municipality can undertake or guarantee without seeking approval of the Ontario Municipal Board. The ARL calculation is prescribed by Ontario Regulation 403/02 (Debt and Financial Obligation Limits) under the Municipal Act, 2001 and is based on the most recent FIR.
- d. **Capital Financing** - a generic term for the financing of capital assets using debt or financing leases.
- e. **Construction Loan:** is a short-term arrangement made to finance any real estate-related projects where funds are released in installments and interest only is paid during construction. Upon completion of construction a long term bank loan or mortgage is then obtained.
- f. **Corporation, Municipality or Township** - The Corporation of the Township of Rideau Lakes.
- g. **Debenture** - a formal written obligation to repay specific sums on certain dates. In the case of the Township, they are typically unsecured. Note that a lower-tier municipality in a two tier municipality does not have the power to issue debentures. 2001, c. 25, s. 401 (3).

- h. **Debt** - any obligation for the payment of money. For Ontario municipalities, debt would typically consist of debentures as well as either notes or cash loans from financial institutions. Debt could also include loans from reserves or reserve funds. Debentures issued from Infrastructure Ontario are also considered debt.
- i. **Financial Guarantee** - an agreement whereby the Corporation will take responsibility for the payment of debt in the event that the primary liable fails to perform, e.g. Local Board Debt;
- j. **Infrastructure Ontario, or successor organization** - any entity established by the Province of Ontario to provide Ontario municipalities, universities, and hospitals with access to alternative financing service for longer-term fixed rate loans for the building and renewal of public infrastructure.
- k. **Lease Financing Agreements** - a lease financing agreement for the purpose of obtaining long-term financing of a capital undertaking of the municipality, per Ont. Reg. 653/05.
- l. **Long-term Bank Loan** - long term debt provided by a bank, or syndicate of banks.
- m. **Long-term Debt** - any debt for which the repayment of any portion of the principal is due beyond one year.
- n. **Municipal Capital Facilities** - includes land, as defined in the *Assessment Act*, works, equipment, machinery, buildings and related systems and infrastructures. (Ont. Reg. 603/16)
- o. **Rolling Stock** - equipment that moves on wheels used for transportation and/or transit purposes.
- p. **Short-term Debt** - any debt for which repayment of the entire principal is due within one year.
- q. **Temporary Borrowing** – means debt for which the repayment of the entire principal is due within one year or in the case of funding for a capital project, borrowing until long-term debt to cover the costs is obtained or issued.
- r. **Variable Interest Rate Loans** – loans that provide for one or more variations in the rate of interest payable on the principal during the term of the loan.

#### 4. Responsibilities:

The Officers and Staff of the Corporation complying with this Policy shall have the necessary authority to carry out the responsibilities and duties identified therein.

- a. The Treasurer shall in addition:
  - i. Review and recommend the type and term of financing for capital projects and operating requirements;
  - ii. Calculate the Financial Obligation Limit for the Corporation as prescribed by the Municipal Act;
  - iii. Approve the timing and structure of debt issues;
  - iv. Coordinate the preparation of debt issue by-laws for the Council;
  - v. May execute and sign documents on behalf of the Corporation and perform all other related acts with respect to the issuance of debt securities;
  - vi. Liaise and assist rating agencies in the evaluation of the credit worthiness of the Corporation;
  - vii. Review and recommend to the Council the financial and business aspects of any material lease agreements and transactions; and
  - viii. Ensure all reporting requirements identified in this Policy are met.
- b. The Mayor may execute and sign documents on behalf of the Corporation with respect to the issuance of debt.

- c. The Chief Administrative Officer / Clerk may certify and sign documents on behalf of the Corporation with respect to the issuance of the debt.

## **5. Philosophy for Capital Financing and Debt Issuance**

- a. The Council may, where it is deemed to be in the best interest of its taxpayers, approve the issuance of debt for its own purposes;
- b. Capital financing will be responsive and fair to the needs of both current and future ratepayers and will be reflective of the underlying life cycle and nature of the expenditure.

## **6. Primary Objectives of the Capital Financing and Debt Program**

The primary objectives for the Corporation's capital financing and debt program, in priority order, shall be:

- a. Adhere to statutory requirements;
- b. Ensure long term financial flexibility;
- c. Limit financial risk exposure;
- d. Minimize long-term cost of financing; and
- e. Match the term of the capital financing to the lesser of the useful life of the related asset or the period over which third party funding for the retirement of debt will be received.

### **6.a. Adhere to Statutory Requirements:**

Capital financing may only be undertaken if and when it is in compliance with the relevant sections of the *Municipal Act*, the *Local Improvement Act*, and their related regulations. These requirements include, but are not limited to:

- a. The term of temporary or short-term debt for operating purposes will not exceed the current fiscal year;
- b. The term of capital financing will not exceed the lesser of 30 years or the useful life of the underlying asset;
- c. Long-term debt will only be issued for capital projects;
- d. The total annual financing charges cannot exceed the Annual Repayment Limit, as applicable, unless approved by the Ontario Municipal Board;
- e. Prior to entering into a lease financing agreement, an analysis will be prepared that assesses the costs as well as the financial and other risks associated with the proposed lease with other methods of financing;
- f. The awarding of any contract under this Policy will, unless otherwise authorized by the Council, follow the procedures and authorities set out in the Corporation's Procurement Policy.

### **6.b. Ensure Long-Term Financial Flexibility:**

- a. Setting aside funds for debt repayment could impact the township's ability to respond to unexpected events, i.e. extreme weather, where a reserve has not been established. Prior to recommending debt the following debt ratios should be calculated and presented to Council identifying provincial recommended ratios:
  - i. Debt charges per capita;
  - ii. Debt charges as a percentage of revenue;
  - iii. Debt charges as a percentage of municipal levy;
  - iv. Using data from the FIR, a comparison of other similar municipalities will be identified.
- b. The capital financing program will be managed in a manner consistent with other long-term planning, financial, and management objectives;

- c. Prior to the issuance of any new capital financing, consideration will be given to its impact on future ratepayers in order to achieve an appropriate balance between capital financing and other forms of funding;
- d. To the extent practicable, replacement assets as well as regular or ongoing capital expenditures (for example, annual replacement of firefighter protective gear) will be recovered on a "pay as you go" basis through rates, tax levy, user fees, or reserves and reserve funds;
- e. It is recognized that reserves must be developed and maintained, as outlined in the Township's Reserve and Reserve Fund Policy, for all capital assets owned by the Corporation to ensure long-term financial flexibility;

#### **6.c. Limit Financial Risk Exposure**

- a. The capital financing program will be managed in a manner to limit, where practicable, financial risk exposure. The Corporation will only obtain debt that is denominated in Canadian dollars with an interest rate that will be fixed over its term;
- b. Financing leases have different financial and other risks than traditional debt. These risks may include contingent payment obligations, lease termination provisions, equipment loss, equipment replacement options, guarantees, and indemnities. These risks will be identified prior to entering into any material financing lease.

#### **6.d. Minimize Long-Term Cost of Financing**

The timing, type, and term of financing for each capital asset will be determined with a view to minimize both its and the Corporation's overall long-term cost of financing.

Factors to be considered will include:

- a. Current versus future interest rates;
- b. Availability of related reserve or reserve fund monies;
- c. Pattern of anticipated revenues or cost savings attributable to the project or purpose;
- d. Costs related to the financing of the project through debt.

#### **6.e. Match the Term of the Capital Financing**

- a. The maximum term over which an asset may be financed is set out in Appendix 1 of this Policy;
- b. In no case shall the term of financing exceed the anticipated useful life of the asset.

#### **7. Standard of Care**

All officers and employees responsible for capital financing and debt activities will follow the standard of care identified in this Policy.

#### **8. Ethics and Conflicts of Interest**

Officers and employees involved in the capital financing process are expected to abide by the Corporation's Code of Conduct. In particular they shall:

- a. Refrain from personal business activity that could conflict with the proper execution and management of the capital financing program, or that could impair their ability to make impartial decisions;
- b. Disclose any material interests in financial institutions with which they conduct business;
- c. Disclose any personal financial/investment positions that could be related to the performance of their capital financing duties; and
- d. Not undertake personal financial transactions with the same individual with whom business is conducted on behalf of the Corporation.

## 9. Delegation of Authority

- a. The Treasurer will have the overall responsibility for the capital financing program of the Corporation;
- b. No person shall be permitted to engage in a capital financing activity except as provided within this Policy;
- c. The Treasurer shall establish a system of controls to regulate the activities of subordinate officials and exercise control over that Staff.

## 10. Suitable and Authorized Financing Instruments

The form of financing will be dependent on its term and the type of asset to be financed.

### a. Short-Term (Under One (1) Year)

Financing of operational needs for a period of less than one (1) year pending the receipt of taxes and other revenues, or interim financing for capital assets pending long-term capital financing, may be from the following sources:

- i. Reserves and Reserve Funds (this may be used as the primary source of short-term financing provided that interest is paid in accordance with the Town's Reserve and Reserve Fund Policy);
- ii. Bank line of credit;
- iii. Short-term promissory notes issued to approved financial institutions; and
- iv. Infrastructure Ontario (or similar organization) short-term advances pending issuance of long-term debentures

### b. Long-Term (Greater than One (1) Year)

Financing of assets for a period greater than one year may be from any of the following sources:

- i. Debentures;
- ii. Reserves and Reserve Funds:  
These may be used for both interim and medium-term for a period of no greater than five (5) years if deemed cost effective or otherwise necessary. Any borrowing must be in accordance with the Township's established Reserve and Reserve Fund Policy.
- iii. Long-Term Bank Loans:  
These loans may be either fixed or variable interest rate loans as determined by the Treasurer. A preference to fixed rate will be made as it reduces interest rate risk if the rates were to increase in the future.
- iv. Construction Loans:  
May be used during construction or rehabilitation of certain facilities.
- v. Lease Financing Agreements:  
May be used when it provides material and measurable benefits compared with other forms of financing and must be in accordance with Ont.Reg. 653/05

## 11. Financing Risk Identification and Mitigation Strategies

It is recognized that there may be additional risks associated with certain types of financing. It is expected that these risks will be identified and considered prior to their use in relation to other forms of financing that would be available.

## **12. Availability of Debt Capacity for Future Priority Projects**

- a. The Corporation could face the risk in any fiscal year of having insufficient debt capacity to fully execute its capital plan based on the ARL. To manage this risk, the capital plan will show the amount of debt financing that will be required for each project and each year of the plan.
- b. Each project will be prioritized by the Staff on the basis of its impact on the Corporation's sustainability plan and/or any strategic plan adopted by Council.

## **13. Variable Interest Rate Debenture and Long-Term Bank Loans**

- a. Variable rate debentures and long-term bank loans may be used when there is volatility in the financial market and/or there is an expectation of significantly lower interest rates occurring within a few months of their issue;
- b. The interest rate will be fixed no later than 1 year after issue in order to mitigate the financial exposure.

## **14. Financial Guarantees and Letters of Credit**

Financial guarantees and/or letters of credit provided by the Corporation, its boards and subsidiaries will be considered as debt and will be governed by this Policy.

## **15. Rolling-Stock**

- a. Typically, the Township will not acquire long-term debt for rolling-stock; these purchases are to be funded through the use of reserves or tax levy;
- b. Leases of rolling-stock shall be permitted where feasible and where the overall cost to the taxpayer will be lower than if the vehicle was purchased;
- c. The Township will, through the budget process, annually fund reserve(s) for the purpose of replacing rolling stock at the end of its useful life. The Township will estimate the annual contribution to reserves by the following -  $\text{Cost of Vehicle} / \text{Estimated \# of Years of Useful life}$ ;
- d. Where a vehicle purchase is required prior to the expected replacement date, the contribution to reserves will be adjusted in the following year to ensure that planned future rolling stock replacements are funded.

## **16. Lease Financing:**

The municipality may enter lease financing agreements for the purpose of obtaining long-term financing of a capital undertaking of the municipality, per Ont. Reg. 653/05 and Ont. Reg. 604/06.

In accordance with Ont. Reg. 653/05 and 604/06, before the municipality enters into a lease financing agreement, the Treasurer shall,

- a. Prepare a report with a recommendation, assessing, in the opinion of the treasurer, the costs and financial and other risks associated with the proposed agreement, including,
  - i. A comparison between the fixed and estimated costs and the risks associated with the proposed agreement and those associated with other methods of financing;
  - ii. A statement summarizing, as may be applicable, the effective rate or rates of financing for the agreement, the ability for agreement payment amounts to vary, and the methods or calculations, including possible financing rate changes, that may be used to establish that variance under the agreement;

- iii. A statement summarizing any contingent payment obligations under the agreement that in the opinion of the treasurer would result in a material impact for the municipality, including agreement termination provisions, equipment loss, equipment replacement options and guarantees and indemnities;
  - iv. A summary of the assumptions applicable to any possible variations in the agreement payment and contingent payment obligations; and
  - v. Any other matters the treasurer or council considers advisable.
- b. Obtain legal advice and financial advice with respect to the proposed agreement;
  - c. Consider if the scope of the proposed transaction warrants obtaining legal advice or financial advice with respect to the proposed agreement that is from a source independent of the source of the advice mentioned in clause (b); and
  - d. Consider and give its assessment of the report prepared under clause (a), including whether, in its opinion, the costs of financing for the proposed agreement are lower than other methods of financing available to the municipality, and whether the risks associated with the proposed agreement are reasonable.
  - e. Review all requirements under Act to ensure all lease financing requirements are fulfilled.

**17. Reporting Requirements:**

- a. Monthly, the Treasurer shall report to Council, all outstanding debts of the municipality (including financing or capital leases), identifying each loan, the purpose and type of loan, interest rates, annual and monthly payment of principal and interest, loan balance remaining, retirement date and the balance remaining of the ARL;
- b. The Treasurer shall prepare reports on all outstanding debt in accordance with the Act.

## Appendix 1 - Maximum Financing Term of an Asset

Maximum Length of Time	Assets to Finance
<b>5 Years</b>	Computer server and network equipment Computer software Personal computer and monitors Radio and telecommunication system Office furnishings Audio and Video equipment Printers
<b>10 Years</b>	Specialized vehicle / equipment Parking lot Public Works facility (depot, dome, etc.) Park or recreational facility Dock, wharf, pier, breakwater Retaining wall, embankment, flood control Sidewalk, path Street lighting Road Constructing/Resurfacing
<b>25-30 Years</b>	Solid waste landfill site Municipal buildings