



Policy Title: Fiscal Stability Reserve

Policy Number: CFO002

Report Number: C2005-04, FCS2007-45, C2008-76

Approved by: City Council

Effective Date: 2005 January 31, Amended 2007 December 10, Amended 2008 November 20

Business Unit: Chief Financial Officer's Department

BACKGROUND

- One of the recommendations approved by Council in report C2005-04 (Recommended Approach to Multi-Year Budgeting) was to convert the Mill Rate Stabilization Reserve (MRSR) into a Fiscal Stability Reserve (FSR) with a different purpose and policy.
- The MRSR was intended to stabilize tax increases from year to year, but with the advent of multi-year budgeting its purpose is changing. A reserve was needed for contingency purposes to handle unexpected events (e.g., natural disaster) or circumstances (e.g., drop in investment income) with significant financial impacts.

PURPOSE

- The policy provides the purpose, main source of funding, maximum balance and transitional process for reducing reserve funding for ongoing operating expenditures.
- The policy provides the purpose and conditions for the FSR and replaces the MRSR policy.

POLICY

The existing Mill Rate Stabilization Reserve is renamed as the "Fiscal Stability Reserve" and:

- A. The reserve is to be used for the following purposes:
 - a contingency fund for operational emergencies, urgent or contingency capital expenditures, and to compensate for unplanned revenue reductions with significant financial impacts;
 - investment income from the reserve would be used to fund one-time operating budget expenditures.
- B. Budgeted one-time operating expenditures funded from the FSR for the three-year business planning and budgeting cycle are to be funded to a limit



of the investment income projected for the reserve during the same three-year period.

- C. The minimum FSR balance is set at 5% of The City's tax-supported gross operating expenditure (net of recoveries), excluding the utilities.
- D. The target balance for the reserve is to be 15% of the tax-supported gross operating expenditure (net of recoveries), excluding the utilities.
- E. Any favourable corporate operating budget variances are to be transferred to the Reserve.
- F. Investment income earned on the Reserve's funds is added to the Reserve.
- G. Previously committed one-time contingent funds that are no longer required for their original purpose, such as recoveries from provisions for tax losses, legal claims or environmental provisions, are to be transferred to the reserve.

PROCEDURE

- In budget projections and proposed budgets, Finance and Supply will indicate funding for tax-supported one-time operating expenditures as coming from the FSR.
- Urgent situations with significant financial impacts will be reported to Council by Administration for potential use of FSR funds.
- Tax-supported operating budget surpluses and investment income earned on the Reserve's funds will be added to the Reserve.

AMENDMENTS

FCS2007-45 2007 December 10

1) Amended the minimum and target levels of the reserve and added funding sources.

C2008-76 2008 November 20

2) Amended the timeframe for using budgeted investment income from the reserve for one-time operating budget expenditures.

2010 revision –policy number change from FCS003 to CFO002 due to department reorganization