A PRIMER ON RESERVES AND RESERVE FUNDS

The Municipality of Middlesex Centre sets aside funds as part of the annual operating budget for reserves and reserve funds. Reserves ensure that Middlesex Centre can “weather the storms” and sustain critical infrastructure over the long term without significant fluctuations to the tax rate.

How Reserves and Reserve Funds Work

Established by Council or Province

Reserves and reserve funds are established by municipal councils through by-laws.

Provincial legislation can require municipalities to establish reserves for specific types of revenue.

The Tax Rate Stabilization Reserve Fund; Water, Wastewater & Stormwater Reserve Funds; and Development Charges & Parkland Reserve Fund are a few of Middlesex Centre’s reserves.

Strategy for Funding Programs and Projects

Reserves are typically part of an overall strategy for funding operating programs and projects.

These funds help offset unexpected expenses or revenue shortfalls.

Money in reserves can come from budget surpluses, property tax levies or other revenue.

Flexible or Committed Funds

Reserve funds are either obligatory or discretionary.

Discretionary reserve funds are set by municipal councils for specific purposes. Councils can have flexibility to decide how the money is used.

Obligatory reserve funds are required by provincial statutes or contractual agreements and can only be used for their intended purpose.

Tool for Long-term Financial Sustainability

Reserves and reserve funds are an important tool for a municipality’s long-term financial sustainability.

Setting money aside for unavoidable events (like floods) and for capital projects (like road repairs) reduces the need for long-term borrowing or imposing sudden tax increases on current or future taxpayers.

Reserves and Reserve Funds: Strategic Management Tools

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

Funds provide one-time or short-term funding for special purposes.

Funds give municipalities the flexibility to deal with fluctuating cash flows.

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

Reserves integrate with and facilitate long-term debt financing strategies.

Municipalities are responsible for 2/3 of Canada's infrastructure but only receive 10% of the tax bill. Municipalities must plan ahead for repairs and upgrades.

Reserves and reserve funds may be used to maintain/control property tax rates if the economy suddenly takes a downturn.

A properly balanced approach to reserves is good financial management and is a key consideration for credit rating agencies.

Keeping Reserves only for Intended Purposes

Using reserves for their **intended purposes** is a financial best practice:

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

If reserves are used for **unintended purposes**:

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

Prepared in 2020.

This document is taken from "A Primer on Reserves and Reserve Funds" by the Municipal Finance Officers' Association of Ontario.

Statistic on Municipal Share of Taxes from Tassonyi, A. (2015). An Exploration Into the Municipal Capacity to Finance Capital Infrastructure, University of Calgary.

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