

**TOWN OF MIDDLETON  
CODE A - GENERAL ADMINISTRATION**

**Subject: Operating Reserve Fund Policy**

**Number: A.1.26**

**Coverage: Staff**

**Approved by: Council**

**Effective Date : May 4, 2015**

**Revision Date:**

**Statement**

1. Planning today and saving incrementally for unexpected future events will help mitigate the financial impact of major, nonrecurring or unforeseen expenditures on the Town's annual operating budget, as well as take advantage of unexpected opportunities to leverage external funding programs.
2. The Town of Middleton is committed to establishing and maintaining an Operating Reserve Fund. The level of Operating Reserve Fund will be at least 10 per cent of regular general fund operating revenues.

**Objectives**

1. The purpose of maintaining adequate levels in the Operating Reserve Fund is to mitigate current and future risks and to ensure stable tax rates. Operating reserves are a significant consideration in long-term financial planning and management.
2. In addition, Operating Reserve Funds will provide the Town with a budgetary option that can help mitigate the need to cut services or to raise taxes.

**Principles**

1. The minimum target for the operating reserve will be approximately 10% of the Town's operating revenues.
2. All operating surpluses will be transferred to the Operating Reserve Fund.
3. Any additional reserves created by the Town will have their purpose clearly defined in a Business Case. The Business Case must also include the source and application of funds, the expected time line and any appropriate maximum amount, and projected annual contributions, withdrawals, and balances.
4. All reserve fund transactions should be transparent to the public. Amounts to be placed in the Operating Reserve Fund should be included in the annual budget.
5. The Operating Reserve Fund will be invested at a bank that the Town does business with.
6. It is intended that Council can revisit this policy in the future to amend the minimum balances as required.

## Uses

1. The operating reserve may be used to smooth significant fluctuations in operating expenditures and/or revenue loss which cannot be anticipated and are beyond the control of the organization. Council can use the fund for both operating and capital purposes.
2. Council may apply funds from the Operating Reserve Fund in the normal course of operations, but maintain the minimum approved balance, as follows:
  - a. Applied in the Annual Draft Operating Budget;
  - b. Applied during Operating Budget Deliberations;
  - c. Applied to other funds as part of budget deliberations - Capital, Area Rated, Water Utilities.
3. Council may apply funds from the Operating Reserve Fund which lowers the fund balance below the minimum approved balance, in an emergency situation, such as the following:
  - a. A protective services emergency, such as a flood condition, snow situation etc.;
  - b. A required property purchase under an agreement;
  - c. A transfer of service/costs to the Town that could not be reasonably budgeted or foreseen;
  - d. A required payment under existing legislation that could not be foreseen, such as pension funding liability;
  - e. An emergency requiring repairs to a Town asset or to an asset supported by the Town;
  - f. A major revenue shortfall that could not be predicted.
4. The assumption under these situations is that there is no other funding source available, or other sources are ruled out. This also assumes that a review of the existing budget to take cost cutting measures in other areas will not have sufficient impact to mitigate the costs of an emergency situation.
5. In order to bring the Operating Reserve Fund back to the minimum balance, the amount of the shortfall is to be included in the draft budget for the following fiscal year. During budget deliberations, Council can approve, amend or develop a phase in approach to balance the Reserve over a number of fiscal periods.

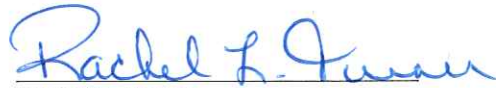
## Application

1. This policy applies to the Operating Reserve Fund of the Town of Middleton.

***Certification***

**THIS IS TO CERTIFY** that this policy was duly passed by a majority vote of the whole Council at a duly called Council meeting held on the 4<sup>th</sup> day of May, 2015.

**GIVEN** under the hand of the CAO and under the seal of the Town of Middleton this 11<sup>th</sup> day of June 2015.



Rachel L. Turner  
Chief Administrative Officer