

## Appendix D - Actions resulting from the consideration of the establishment of Income Funds

Through the deliberation of the 2024 Budget, the following concept was raised by a member of Council for discussion through the Question and Answer Process:

“Is it possible to consider the establishment of the following reserve funds from the estimated \$198 million in reserves as a solution to and hedge against the lingering and likely chronic environment of provincial and federal underfunding of new growth, which then has to be assumed by municipal property taxpayers at an increasingly greater expense to them?

**Operating Budget Income Fund:** The purpose of this professionally-managed fund would be to generate a minimum of \$1 million in revenues annually from the yearly returns generated by the initial \$15 million fund to reduce and, over a period of years, smooth out the impact of operational growth requirements on the operating budget. It would be a sustainable source of revenue replacing, for example, deployment of the current Tax Rate Stabilization Reserve (\$1.7 million in 2024), which would revert back to only being used at the end of a given budget year in an emergency, i.e., to balance the operating budget. The operating budget would no longer be used as a source to fund the Tax Rate Stabilization Reserve, other than in the event of a year-end surplus. Some or all of that surplus could be placed into the Tax Rate Stabilization Reserve at the discretion of Council. Once the Operating Budget Income Fund began to generate revenues in excess of the municipality's annual requirements, the fund would reimburse the Town reserve where the funds were allotted from to establish it.

**Non-Growth Infrastructure Income Fund:** The purpose of this professionally-managed fund would be to generate a minimum of \$1 million in revenues annually from the yearly returns generated by the initial \$15 million fund to increase Non-Growth Infrastructure Reserve monies and, over a period of years, close the fiscal gap. It would be a sustainable source of revenue, replacing current deployment of the annual operating budget to fund it, thereby eliminating any pressure on Council, staff and taxpayers to fund the reserve through the municipal levy. The 1.23% (2024) in operating budget monies freed up by the establishment of the income fund could be used elsewhere in the budget or simply not spent, thereby reducing the rate of the tax increase that year. Once the Non-Growth Infrastructure Income Fund began to generate revenues in excess of the municipality's annual requirements, the fund would reimburse the Town reserve where the funds were allotted from to establish it.”

Through the responses provided by staff at the time of budget deliberation, as well as through the further discussion that occurred at the February workshop, the following points were noted for consideration:

- Council has the authority to establish reserves and reserve funds and to prescribe the purpose and utilization of each.
- A source of funding would need to be identified for these new Income Funds, and based on the degree that a number of the Town's existing reserves (specifically the non-growth infrastructure reserves) fall below their target balance, the resulting impact on the existing funding plans would need to be carefully considered.
- With respect to the current planned utilization of the tax stabilization reserve in 2024, such use on a short-term basis can be an appropriate practice to help smooth pressures on the tax rate over several years. Ultimately these reserve transfers need to be replaced with a sustainable funding source (most likely property taxes), and the length of time this strategy can be maintained will be constrained by the funding available in the stabilization reserve.
- With respect to infrastructure funding, it should be noted that the funds held in the Town's existing reserves are currently invested in a manner to maximize the Town's opportunities within the established investment policy framework (Policy No. 116). Expansion to the utilization of the Equity Fund that is available to municipalities has yet to occur, and when utilized it will be related to the long term portion of the Town's portfolio (given the potential volatility that may be experienced). The principal value and return on the Town's investments are expected to be used over the 10 year period to fund the 10 year capital program, as well as to grow the value of the Town's reserves to better prepare the community for future needs.

Based on the discussion from the February workshop and the points above, although establishing separate income funds for the above-noted purposes is not being recommended at this time, the following action items have been identified as a result of this review for future implementation:

1. Non-Growth Reserves and Funding - in order to further enhance the transparency in relation to how investment earnings are generated and applied to the Town's non-growth infrastructure reserves and capital, the Town will:
  - a. Revisit language that is included within the Town's Treasury Policy (Policy 116) during the Policy review and update process that is planned for 2024
  - b. Revisit the presentation of the Town's total annual funding that is available to support infrastructure renewal, as well as the calculation of the annual infrastructure deficit, in order to ensure that the allocation of investment earnings on the non-growth infrastructure reserves and capital work in progress are appropriately reflected.

2. Operating Budget and Funding - although drawing from the existing Town reserves and reserve funds in order to establish an operating income fund is not recommended, should an external or one-time funding source become available this concept can be revisited. The need (at that time) for the new fund can also consider any progress that has been achieved through the multi-year budget strategy should the recommendations of this report be adopted and implemented by Council.