



Report

Subject: Corporate Operating Budget Surplus Allocation and Deficit Funding Policy

Department: Corporate Services

Division: Finance

Report #: CPS-2025-051

Meeting Date: 2025-06-09

Recommendations

That report CPS-2025-051, Corporate Operating Budget Surplus Allocation and Deficit Funding Policy, be received; and

That the Corporation of the Town of Orangeville adopt this Corporate Operating Budget Surplus Allocation and Deficit Funding Policy for fiscal 2024 and future years.

Overview

The purpose of a Corporate Operating Budget Surplus Allocation and Deficit Funding Policy (Policy) is to provide clear and consistent direction to staff for how to treat operating surpluses and deficits in a manner that supports elements of the Town's Integrated Long-Term Financial Strategy and is in accordance with the Municipal Act. The proposed policy seeks to ensure surpluses and deficits are managed within respective budgets according to funding source. Operating surpluses or deficits derived from the property tax supported budget are allocated to or funded from reserves that support property tax supported areas.

A similar approach is proposed for self-funded programs (Water, Wastewater, Building and Cemetery). The underlying approach in the Policy is to use surpluses to top-up stabilization reserves to established target levels first, and then allocate the remaining surplus, if any, to capital reserves. The rationale for this approach is that operating surpluses are considered one-time in nature and should not be relied upon to fund future ongoing operating items.

Background

Development of the Town's Integrated Long-Term Financial Strategy is a multi-year initiative that builds a framework to assist Council and staff in reaching strategic goals and objectives for the organization in a financially sustainable manner.

Operating surpluses represent a source of revenue for future costs. To support many aspects of the Town's Integrated Long-Term Financial Strategy, staff propose to implement a Policy whereby operating surpluses are allocated to reserves that provide a stabilization function or that provide a source of funding for capital in a manner prescribed in the policy. In particular, this Policy helps to support the Reserve and Reserve Fund Policy framework endorsed by Council through CPS-2024-061, dated October 7, 2024 and will further support the Town's Asset Management Plan to the extent surpluses are allocated to capital reserves.

Analysis/Current Situation

The proposed Policy incorporates several guiding principles:

- According to the Municipal Act, year-end operating deficits must be funded either from previous revenue (reserves) or future revenue (property tax levy, user rates or user fees, as applicable).
- Year-end operating surpluses for Tax-Supported and Non-Tax Supported Budgets represent one-time funding that cannot be relied on to recur on an ongoing basis. Therefore, any year-end operating surplus should only be allocated to fund one-time, non-recurring expenditures such as capital, or one-time operating initiatives or be used as stabilization funding for future unforeseen events.
- Unstable or unpredictable tax levies can adversely affect residents and businesses within the Town of Orangeville. To maintain stable and predictable levies, the Town sets reserve and reserve fund targets that build sufficient reserves and reserve funds to manage the impact of unusual or unplanned cost increases or revenue reductions over multiple budget cycles.
- Municipalities are responsible for the acquisition/construction and maintenance/renewal of municipal infrastructure over the useful life of those assets. Municipalities are required to maintain asset management plans that outline infrastructure needs over a long-term planning horizon. To cover funding gaps between the level of funding needed to support asset management and the level of funding provided in the operating budget, the Town plans to use debt as a financing tool. To reduce the Town's debt requirements, operating surpluses can be allocated to capital reserves to replace debt and reduce future debt burden.
- The year-end operating surplus for Tax Supported and Non-Tax Supported budgets will be allocated to respective reserves and reserve funds for those funding sources.

The order in which final year-end operating positions are treated in the proposed Policy are as follows:

- Deficits will be funded from stabilization reserves based on funding source. If insufficient reserve capacity exists, the deficit will be added to the next budget to be adopted by Council.
- Surpluses will be allocated to reserves based on funding source. The priority sequence will be to first top up stabilization reserves to their targeted levels per the Reserve and Reserve Fund Policy and then to respective capital reserves.

Corporate Implications

While this report will not generate direct implications, the Corporate Operating Budget Surplus Allocation and Deficit Funding Policy will streamline year-end processes by providing clear and consistent direction to staff for the treatment of year-end operating results.

Conclusion

If approved, staff will allocate 2024 operating surpluses and fund 2024 deficits in accordance with the Policy.

Strategic Alignment

Strategic Plan

Strategic Goal: Future-Readiness

Objective: Sustainability

Sustainable Neighbourhood Action Plan

Theme: Corporate and Fiscal

Strategy: Create and integrate sustainability principles into Town policies, processes and practices

Notice Provisions

Not Applicable

Respectfully submitted,

Antonietta Minichillo
General Manager, Corporate Services

Prepared and Reviewed by:

Cheryl Braan
Treasurer/Chief Financial Officer,
Corporate Services

Attachment(s): 1. Corporate Operating Budget Surplus Allocation and Deficit Funding Policy