



## **Corporate Policy**

### **Corporate Operating Budget Surplus Allocation and Deficit Funding Policy**

**Department: Corporate Service**

**Approved**

**by Council:  
Resolution No.**

#### **1. Policy Statement**

It is the policy of the Town of Orangeville to allocate any year-end operating surplus that may arise from the Tax Supported or Non-Tax Supported Budgets in a manner that is consistent with Council's view of long-term financial sustainability and in line with financial management best practices.

#### **2. Purpose**

To establish a priority framework for the allocation of any operating surpluses and funding for any operating deficits and set guidelines for the allocation of any year-end operating surplus for the Tax Supported budget and Non-Tax Supported budgets, including local boards. This policy seeks to formalize past practices with respect to the approach taken by Town staff in recommending the allocation of the prior year's surplus.

#### **3. Definitions**

**“Non-Tax Supported Budgets”** - a budget that is self-sustaining and does not require a transfer from property taxes to support its operations. The current Town Non-Tax Supported budgets are Water Services, Wastewater Services, Cemetery and Ontario Building Code Administration. This list is subject to change.

**“Tax Supported Budgets”** - a budget that is partially or wholly reliant on a transfer from property taxes to support its operations. The Tax Supported Budgets include the Towns local boards (Police and Library).

**“Year-end Operating Surplus”** - occurs when there is an excess of revenue over expenditure in a particular year. Year-end surpluses generally arise from two circumstances - higher than budgeted revenues, including one-time only revenues and/or lower than budgeted expenditure.

**“Year-end Operating Deficit”** - occurs when there is a shortfall of revenue versus expenditure in a particular year. Year-end deficits generally arise from two circumstances - lower than budgeted revenue and/or higher than budgeted expenditure.

#### **4. Scope**

This policy applies to all year-end operating budget surpluses or deficits occurring in Non-Tax Supported budgets and Tax Supported Budgets.

#### **5. Policy**

##### **5.1 Guiding Principles**

- 5.1.1 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).
- 5.1.2 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.
- 5.1.3 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.
- 5.1.4 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.
- 5.1.5 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.

## 5.2 Priority Allocation

**5.2.1 Deficits:** The Town will fund operating deficits from reserves or from the next budget to be adopted by Council, as the case may be. For greater clarity the operating deficits will be funded as follows:

- a. For the Tax Supported budget, the deficit will be funded from the Tax Stabilization Reserve.
- b. For Water Services, operating deficits will be funded from the Water Rate Stabilization Reserve.
- c. For Wastewater Services, operating deficits will be funded from the Wastewater Rate Stabilization Reserve.
- d. For Cemetery Services, operating deficits will be funded from Cemetery Stabilization Reserve.
- e. For Building services, operating deficits will be funded from Building Permit Stabilization Reserve.
- f. For of a) to e) above, in the event there are insufficient reserves to cover the deficit, the amount of the deficit will be added to the next budget to be adopted by Council.

**5.2.2 Surpluses:** The Town will allocate operating surpluses to reserves supporting respective operating budgets.

- a. For the Tax Supported budget, the operating surplus will be allocated as follows:
  - i. used to top up the Tax Stabilization Reserve to its targeted amount as defined in the Town's Reserve and Reserve Fund policy (target is 10% of prior year's general property tax levy); and;
  - ii. allocate any remaining amounts to the General Capital Reserve.
- b. For Water Services, operating surpluses will be allocated as follows:
  - i. used to top up the Water Rate Stabilization Reserve to its targeted amount as defined in the Town's Reserve and Reserve Fund policy (target is 15% of prior year's water operating revenue); and;
  - ii. allocate any remaining amounts to the Water Capital Reserve.
- c. For Wastewater Services, operating surpluses will be allocated as follows:
  - i. used to top up the Wastewater Rate Stabilization Reserve to its targeted amount as defined in the Town's Reserve and Reserve Fund policy (target is 15% of prior year's water operating revenue); and;
  - ii. allocate any remaining amounts to the Wastewater Capital Reserve.
- d. For Cemetery Services, operating surpluses will be allocated as follows:
  - i. used to top up the Cemetery Stabilization Reserve to its targeted amount as defined in the Town's Reserve and Reserve Fund policy (target is 30% of prior year's cemetery operating expenses); and;
  - ii. allocate any remaining amounts to the Cemetery Capital Reserve.
- e. For Building services, operating surpluses will be allocated to the Building Permit Stabilization Reserve.