# TOWN OF INNISFIL
# CORPORATE POLICY

| **POLICY:**<br>**Property Tax Operating Surplus or Deficit Disposition/Tax Rate Stabilization Reserve** | **COUNCIL APPROVAL**<br>**DATE: May 02, 2012**<br>**RES. NO.: CR-087-09.12** |
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| **POLICY NO.:**<br>***CP.02-12-05*** | **REVISED DATE:**<br>**RES. NO.:** |

## 1. PURPOSE:

This policy is to provide direction to Town Administration for the disposition or treatment of any annual operating surplus or deficit that occurs from property tax funded activities of the Town. It will also prescribe the circumstances where the tax rate stabilization reserve will be accessed, establish minimum and maximum balances and set the process to restore or re-direct balances in the event they fall outside of targeted levels.

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**Application:**

This policy will be used by Town Administration, when applicable, in the preparation of property tax funded operating budgets; in determining funding for emergency or unplanned expenditures and at yearend financial close for allocating funds from reserves for current year deficits or for the disposition of current year surpluses.

**Background:**

Annual property tax operating surplus balances, after allocation to specific reserves approved by Council have historically been transferred to the tax rate stabilization reserve. Previously there has not been a target or maximum threshold set to provide guidance as to when to top up funds to the reserve or when amounts can be re-directed to other reserves to satisfy capital needs or other purposes such as debt avoidance etc.

Previously the use of the tax rate stabilization reserve or the replenishment of it has not been formally defined. Instances have occurred where ongoing, recurring expenditures were funded from the reserve without addressing the longer term impact to property tax rates. This has the potential to create revenue problems in future years that may require property tax rate increases, a reduction in expenditures, or a combination of both or a continued use of reserves, thereby further depleting the reserve balance. This is not sustainable in the long-term and leaves the Town vulnerable in emergency circumstances where reserve balances are not available to deal with the issue.

The Government Finance Officers Association (GFOA) recommends that municipalities maintain tax rate stabilization reserves at *no less than 5%* of its annual revenue as a prudent level to allow for a reasonable degree of budget error and to mitigate the financial impacts of emergency situations or unforeseen changes in the economy. In Ontario there are a variety of targets, minimum thresholds and mechanisms (e.g. 5% of tax revenues, 5% of expenditures etc.) used by municipalities that have adopted formal policies.

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**Policy Parameters:**

1. The Property Tax Rate Stabilization (PTRS) Reserve balance at the end of each fiscal year shall be maintained at a minimum of 5% and a maximum of 10% of the budgeted expenditures net of transfers to other reserves (i.e. the Town does not maintain or contribute to balances in one reserve to protect against fluctuations in other reserves).

2. Any property tax based operating deficit shall be funded from the tax rate stabilization reserve up to the full amount available with any remaining deficit included in the tax rate to be recovered from property owners in the year immediately following the year of deficit. If required and subject to Council's direction, service level reductions may be necessary to offset the unfunded deficit.

3. Any property tax based operating surplus, net of Council approved transfers to other specific reserves and amounts carried over to the next fiscal year to complete contractual obligations, shall be allocated to the PTRS Reserve to the maximum allowed. All balances remaining shall be allocated to the Capital Expenditure Reserve Fund subject to the maximum identified for that reserve fund. Any remaining balance will be allocated based on Council direction or applied to reduce the property tax rate for the year immediately following the year of surplus.

4. The utilization of the PTRS Reserve will be to minimize the impact to property owners for one-time, non-recurring expenditures contained within the operating budget. These expenditures would be identified by staff during the annual budget process and funded from the PTRS Reserve but highlighted for Council and the Public in the budget presentations and documents.

5. Emergency related purchases and Council approved in-year items that either were not included in the budget and/or that exceed the budget to the extent that an overall operating deficit is expected to occur would also be funded from the PTRS Reserve to a maximum of the amount available (i.e. reserve will not be placed in a deficit position) with other reserves or non-restricted reserve funds accessed for any remaining shortfall as required.

6. PTRS Reserves shall not to be used to reduce the impact on property tax rates where the costs are for recurring, ongoing operational requirements, unless otherwise directed by Council through a specific Council resolution. Service level reductions, delay of operational projects or obtaining other sources of revenues will be the method employed to ensure long term sustainability and affordability to the property tax payer instead of a temporary and non-sustaining use of reserves.

7. Staff will undertake a review of the policy during the first year of each new Council term for the purpose of ensuring the policy aligns with Council's goals and priorities. Staff will present the findings of that review and make further recommendations, as required, for Council consideration.

8. The Director of Finance will provide annual reports on the financial position of the PTRS Reserve and the relation to the targets % identified in item 1 of this policy. If the PTRS Reserve balance falls below the 5% minimum target, the Director of Finance will also provide a strategy for Council's consideration to replenish the reserve to the minimum balance through planned budget contributions, directing one-time, non-recurring revenues to the reserve or a combination of expenditure reductions and/or fees increases (to a maximum of 100% cost recovery).