



TOWN POLICY

POLICY NUMBER: 1817

REFERENCE:

Resolution No.
182.07.23

ADOPTED BY:

Town Council

PREPARED BY: Strategic, Administrative and
Financial Services

DATE: July 19, 2023

TITLE: FINANCIAL RESERVES

POLICY STATEMENT

The Town of Strathmore is sustainable only if both its capital infrastructure and financial assets can be maintained over the long term. It is the policy of the Town to establish financial reserves to safeguard the long-term financial stability and flexibility of the Town, to position it to respond to varying economic conditions and changes affecting the Town's financial position, and to ensure the organization can continuously fulfill its responsibilities to the community.

1.0 PURPOSE

- 1.1 The Town recognizes that a critical component of fiscal stewardship is the establishment of financial reserves. These financial reserves provide for property tax stabilization and maintain a prudent level of available financial resources to protect against the need to reduce service levels or raise taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures.
- 1.2 Financial reserves also provide resources for the repair and replacement of existing capital assets and infrastructure, construction of new capital assets and infrastructure, and balancing the use of long-term debt with pay-as-you-go financing. Financial reserves enhance the Town's financial strength, flexibility, sustainability, and cash flow management.

- 1.3 This policy is to establish guidelines, limits, and conditions applicable to the segregation of the Town's restricted surplus in its audited financial statements, into financial reserves. The financial reserves will ensure a favourable and sustainable financial position while supporting the ability to meet current and future operating and infrastructure requirements by maintaining reserves funds sufficient to achieve the following:
- (a) To set aside funds for the establishment of specific reserves to provide for emergent financial needs and stabilize tax rates.
 - (b) To set aside sufficient funding for the replacement and rehabilitation of existing capital assets to minimize the debt financing needs of the Town.
 - (c) To set aside funds to acquire or construction of new capital assets as required and as identified in the Town's strategic plan and capital budgets.
 - (d) To set aside funds so that the organization has sufficient working capital so that it can sustain operations through delays in receipt of tax revenue, user fees, and grants or from volatile expenditures and unanticipated opportunities/challenges.
 - (e) Public confidence in the long-term sustainability of the organization by preventing cash flow crises that can diminish its reputation and force its leaders to make expensive short-term, crisis-based decisions.
 - (f) Support municipal asset management planning, as financial reserves allow for funds to be set aside to manage assets throughout their lifecycle.

2.0 DEFINITIONS

- 2.1 **"Capital Reserves"** means the portion of the accumulated surplus that the Town has restricted for use in maintaining an adequate financial reserve to replace and rehabilitate existing capital assets and acquire or construct new capital assets as required, and as identified in the Town's strategic plan and capital budget.
- 2.2 **"Dedicated Reserves"** means the portion of the accumulated surplus that the Town has collected from developers to fund specific initiatives and/or projects. The funds may not be used for any other purpose than that for which they were collected.
- 2.3 **"Operating Reserves"** means the portion of the accumulated surplus that the Town has restricted so that the organization has sufficient working capital to:
- (a) stabilize annual tax rate increases,

- (b) sustain operations through delays in receipt of revenue, from unanticipated expenditures, unbudgeted increases in operating expenses and/or losses in operating revenue, and unanticipated opportunities/challenges.

2.4 **"Program Specific Reserves"** means the portion of the accumulated surplus that the Town restricts for use in specific initiatives or programs for which the funds are collected.

3.0 RESPONSIBILITIES

3.1 Only Council can approve the drawing down of a financial reserve for operating or capital purposes.

3.2 Financial reserve reporting will form a part of the Town's quarterly financial reporting.

3.3 Administration will annually provide Council with:

- (a) Actual year-end financial reserve balances.
- (b) Ten-year reserve balance projections, including financial reserve receipts/contributions, distributions/withdrawals, and ending balances.
- (c) Reserve statistics as follows:
 - (i) capital reserve contributions as a ratio to capital asset value,
 - (ii) capital reserve contributions as a percentage of annual amortization,
 - (iii) the ratio of financial reserves to outstanding debt,
 - (iv) the unamortized balance of capital assets relative to historical cost (the asset consumption ratio).

3.4 This policy will be reviewed by Council at least once each term of office.

4.0 GENERAL GUIDELINES

4.1 All financial reserve transfers, re-allocation of funds, and new financial reserves must be approved by Council. Approvals may be in the form of:

- (a) The approved annual operating or capital budget;
- (b) A carryover project that was contained in an approved operating or capital budget; or
- (c) A Council resolution.

- 4.2 Draws from financial reserves must not exceed the fund balance unless it can be demonstrated to Council that future sources of revenue will provide adequate funding to return the reserve to a positive balance.
- 4.3 All financial reserves must be fully described and include a purpose, source of funding, minimum level, optimum or target level, and the rationale used to establish the levels.
- 4.4 Before creating a new financial reserve, the option of adding an incremental contribution to an existing fund of a like nature will be considered.
- 4.5 The prescribed financial reserve limits will be reviewed by Council at least once each term of office.
- 4.6 Where appropriate, each financial reserve will be supported by a 10-year projection for receipt/contributions and disbursement/withdrawal of funds. These projections will be updated annually as part of the annual budget process.
- 4.7 Interest will be paid to Capital Reserves and Dedicated Reserves based on the average balance, calculated as the opening plus closing balances divided by two, at the annual average rate of return on long and short-term investments minus one-half percent.
- 4.8 The Town will maintain financial reserves in accordance with Schedule A.

5.0 MANAGEMENT OF THE FINANCIAL RESERVE FUNDS

- 5.1 Under the direction of Council, the Chief Administrative Officer, or their designate will ensure funds are invested according to the guidelines set out in the Town's Investment Policy and in accordance with provincial legislation.
- 5.2 Financial reserves will be drawn down only under the circumstances detailed within this policy.
- 5.3 For reporting purposes, the financial reserves will be listed separately in the notes section of the Town's annual financial statements.

6.0 RELATED POLICIES

- 6.1 Municipal Government Act, as amended
- 6.2 Town of Strathmore Budget & Taxation Guiding Principles Policy 1819, as amended
- 6.3 Town of Strathmore Strategic Plan, as amended

7.0 ATTACHMENTS

- 7.1 Financial Reserve Policy - Schedule A

REPEALS POLICY: Operating and Capital Reserves Policy 1807

END OF POLICY

OPERATING RESERVES					
Fund	Purpose	Funding Source(s)	Minimum \$ Level	Target/Optimum \$ Level	Rationale Used to Establish Levels
Financial Stabilization	To provide funds to stabilize tax rates for non-recurring, emergent, one-time expenditures or losses of revenue that will not be built into the base operating budget in future years. Examples include, but are not limited to, abnormal snow removal, fluctuating interest rates, declines in revenues, increased utility costs, by-election, plebiscites, special projects or other items that would result in an overall deficit to the municipal operation.	One-time transfers and one-time unbudgeted sources of revenue.	5% of annual operating expenditures	10% of annual operating expenditures	GFOA best practices are a minimum of 1 month and an optimum of 2 months of annual operating expenditures
Non-Annual Recurring Expenses	To fund expected recurring expenses that do not occur on an annual basis in the Town's multi-year operating budget. Examples would be the municipal election every four years, new MDP every ten years, municipal census, citizen satisfaction survey every second year.	Original fund established by a transfer from the Financial Stabilization Reserve and then from municipal property taxes as required.	None	To be established every year as part of the Annual Operating Budget.	Comparison to amounts set by other municipalities and historical experience with actual amounts
Development Application	To provide funding for scalable resourcing levels required to accommodate fluctuations in planning and development applications without requiring tax-funded support. The reserve is used to stabilize the operating budget.	Annual operating surpluses from fee supported operations in the Planning & Development and Engineering departments.	None	The target balance for the reserve is 50% of annual budgeted fee-based expenditures in Planning & Development and Engineering	The optimum level is intended to provide sufficient rate-supported stabilization to the fee-supported operations to scale up and scale down to meet higher and lower than anticipated permit volumes.
CAPITAL RESERVE					
Asset Replacement/ Rehabilitation	To fund asset rehabilitation and replacement capital projects. Examples include, but are not limited to, mobile vehicles, cemetery care, municipal buildings, recreational and play structures, office and technology equipment, technology systems.	Transfers from annual operating surpluses, budgeted transfers from municipal property tax revenue, sales of vehicles and equipment, donations, and other one-time transfers to boost reserve levels.	Adequate to fund rehabilitation and replacement capital projects identified as reserve funded in the long term financial strategy and capital planning summary and unanticipated capital expenditures within the next 5 years.	Adequate to fund rehabilitation and replacement capital projects identified as reserve funded in the long term financial strategy and capital planning summary and unanticipated capital expenditures within the next 10 years.	Best practices call for fund balances based upon an analysis of the needs of the municipality, taking into consideration long term financial strategies, asset management plans, and future capital asset replacement values. Best practice suggests total budgeted transfers from the operating budget in each calendar year will be between two (2) and two and one-half (2.5) percent of the prior year's replacement value of capital assets.
General Municipal Capital	To fund new capital projects or for capital expenditures necessary in cases of emergency.	Transfers from property tax revenue, unspent annual contributions to capital from operations, and one time transfers to boost reserve levels.	Adequate to fund new capital projects identified as reserve funded in the long term financial strategy and capital planning summary and unanticipated capital expenditures within the next 5 years.	Adequate to fund new capital projects identified as reserve funded in the long term financial strategy and capital planning summary and unanticipated capital expenditures within the next 10 years.	Best practices call for fund balances based upon an analysis of the needs of the municipality, taking into consideration long term financial strategies, capital project plans, and asset management plans.

PROGRAM SPECIFIC RESERVES

Fund	Purpose	Funding Source(s)	Minimum \$ Level	Target/Optimum \$ Level	Rationale Used to Establish Levels
Roads	To fund capital projects related to the Road System.	Transfers from property tax revenue, unspent annual contributions to capital from operations, grant funding, and one time transfers to boost reserve levels.	Adequate to fund rehabilitation, replacement, construction, and acquisition of capital projects identified as reserve funded in the 10-year capital budget and unanticipated capital expenditures within the next 5 years.	Adequate to fund rehabilitation, replacement, construction, and acquisition of capital projects identified as reserve funded in the 10-year capital budget and unanticipated capital expenditures within the next 10 years.	Best practices call for fund balances based upon an analysis of the needs of the municipality, taking into consideration long term financial strategies, asset management plans, and annual depreciation amounts.
Storm Water	To fund capital projects related to the wastewater System.	(1) financing initiatives & surcharges (2) special requisitions (3) grant funding specific to utility programs (4) net surplus from annual operations of the Utility department.	Adequate to fund rehabilitation, replacement, construction, and acquisition of capital projects identified as reserve funded in the 10-year capital budget and unanticipated capital expenditures within the next 5 years.	Adequate to fund rehabilitation, replacement, construction, and acquisition of capital projects identified as reserve funded in the 10-year capital budget and unanticipated capital expenditures within the next 10 years.	Rate model projections of reserve requirements to fund anticipated storm water capital projects over the next 10 years.
Water	To fund capital projects related to the water and utility metering systems.	(1) financing initiatives & surcharges (2) special requisitions (3) grant funding specific to utility programs (4) net surplus from annual operations of the Utility department.	Adequate to fund rehabilitation, replacement, construction, and acquisition of capital projects identified as reserve funded in the 10-year capital budget and unanticipated capital expenditures within the next 5 years.	Adequate to fund rehabilitation, replacement, construction, and acquisition of capital projects identified as reserve funded in the 10-year capital budget and unanticipated capital expenditures within the next 10 years.	Rate model projections of reserve requirements to fund anticipated water capital projects over the next 10 years.
Wastewater	To fund capital projects related to the wastewater system.	(1) financing initiatives & surcharges (2) special requisitions (3) grant funding specific to utility programs (4) net surplus from annual operations of the Utility department.	Adequate to fund rehabilitation, replacement, construction, and acquisition of capital projects identified as reserve funded in the 10-year capital budget and unanticipated capital expenditures within the next 5 years.	Adequate to fund rehabilitation, replacement, construction, and acquisition of capital projects identified as reserve funded in the 10-year capital budget and unanticipated capital expenditures within the next 10 years.	Rate model projections of reserve requirements to fund anticipated wastewater capital projects over the next 10 years.

PROGRAM SPECIFIC RESERVES (continued)

Fund	Purpose	Funding Source(s)	Minimum \$ Level	Target/Optimum \$ Level	Rationale Used to Establish Levels
Solid Waste and Recycling	To fund the lifecycle replacement/rehabilitation of capital infrastructure or future capital acquisitions relating to solid waste collection services.	(1) financing initiatives & surcharges (2) special requisitions (3) grant funding specific to utility programs (4) net surplus from annual operations of the Utility department.	Adequate to fund rehabilitation, replacement, construction, and acquisition of capital projects identified as reserve funded in the 10-year capital budget and unanticipated capital expenditures within the next 5 years.	Adequate to fund rehabilitation, replacement, construction, and acquisition of capital projects identified as reserve funded in the 10-year capital budget and unanticipated capital expenditures within the next 10 years.	Rate model projections of reserve requirements to fund anticipated solid waste collection capital projects over the next 10 years.
Fire	To fund the lifecycle replacement/rehabilitation of capital infrastructure or future capital acquisitions relating to fire services.	Budgeted transfers from municipal property tax revenue, sales of vehicles and equipment, donations, and one-time unbudgeted sources of revenue.	Adequate to fund rehabilitation, replacement, construction, and acquisition of capital projects identified as reserve funded in the 10-year capital budget and unanticipated capital expenditures within the next 5 years.	Adequate to fund rehabilitation, replacement, construction, and acquisition of capital projects identified as reserve funded in the 10-year capital budget and unanticipated capital expenditures within the next 10 years.	Projections of reserve requirements to fund anticipated fire services capital projects over the next 10 years.
Sport Centre	To fund the lifecycle replacement/rehabilitation of capital infrastructure or future capital acquisitions relating to the Sports Centre.	Annual funding commitments from Wheatland County, Golden Hills School Division, and the Town of Strathmore as outlined in the Joint Use Agreement	None	None	None
Affordable Housing	To fund capital projects related to the affordable housing.	Transfers from property tax revenue, grant funding, and repayment of second mortgages from the Bayside Housing Project.	None	None	None

DEDICATED RESERVES - Funded By Development

Fund	Purpose	Funding Source(s)	Minimum \$ Level	Target/Optimum \$ Level	Rationale Used to Establish Levels
Water Offsite Levy	To fund the future costs to provide new or expanded infrastructure required for development.	Levies assessed to development in accordance with the Municipal Government Act	None	None	None
Wastewater Offsite Levy	To fund the future costs to provide new or expanded infrastructure required for development.	Levies assessed to development in accordance with the Municipal Government Act	None	None	None
Storm Water Offsite Levy	To fund the future costs to provide new or expanded infrastructure required for development.	Levies assessed to development in accordance with the Municipal Government Act	None	None	None
Roads Offsite Levy	To fund the future costs to provide new or expanded infrastructure required for development.	Levies assessed to development in accordance with the Municipal Government Act	None	None	None
Cash in-lieu of Municipal Reserve	To fund public parks, public recreation areas or school authority developments as are allowed by Section 671(2) of the MGA	Funds are collected as part of the Subdivision approval process, and payments are outlined in a Subdivision Servicing Agreement.	None	None	None