

### **3.18: RESERVE AND SURPLUS POLICY**

Established by Council on Oct. 13, 2020 – Resolution No. 31669  
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Amended by Council on \_\_\_\_\_, \_\_\_\_ - Resolution No. \_\_\_\_\_

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#### **PURPOSE**

The purpose of the Reserve and Surplus Policy is to provide guidance on the development, maintenance, and use of financial reserve funds.

#### **PRIMARY OBJECTIVE**

It is essential that local governments maintain adequate levels of reserve balances to mitigate current and future risks, ensure stable tax rates and demonstrate financial commitments to long range infrastructure and master plans. The following guiding principles form the basis of this policy:

- Sufficient reserve funds are important in achieving financial health and stability for the District of Mackenzie;
- Reserve goals need to be consistent with and supportive of established long-term financial plans;
- Reserve fund management needs to conform to the statutory and legal requirements of the *Local Government Act* and the *Community Charter*, generally accepted accounting principles (GAAP) and public sector accounting board (PSAB) recommendations.

#### **POLICY PROCEDURE**

##### Definitions

The following terms are used in this Policy and are defined as follows:

“Annual Surplus” means the accumulated excess of revenues over expenditures for the current year.

“Reserve Funds” means funds that are set aside for a specified purpose by Council pursuant to subsection 188 (1) of the *Community Charter*. These reserves are established via District bylaws and are discretionary on the part of Council. The reserve funds can be operating or capital in nature.

“Reserves” means all the District’s Reserve Funds and Statutory Reserve Funds.

“Statutory Reserve Funds” means funds set aside for specified purposes as required by and pursuant to specific legislation. These reserves are established via District bylaws and are non-discretionary on the part of Council.

“Unappropriated Surplus” means the accumulated surplus built up in the District’s various operating funds that has not been designated for specific uses.

## **SECTION 1 – RESERVES FUNDS**

### Operating Reserve Fund:

#### **1.1 Financial Stability Reserve**

The Reserve for future expenditures has been established for the following purposes:

**For One-time and Intermittent Projects** – The District undertakes certain one time and/or intermittent projects that are larger in terms of costs. If these projects were funded from property taxation, annual spikes and declines in taxation would result, therefore, it is not prudent to fund these projects from on-going property taxation revenue. Examples include neighborhood plans and maintenance work not capital in nature.

**To Offset Unrealized Revenues** - Some of the District’s revenue sources, (i.e., development fees, building permits), are cyclical in nature and thus are subject to downturns in the economy. The District tries to anticipate economic downturns during budget processes but despite best efforts may be exposed to the possibility of unrealized or declining revenues.

### Capital Reserve Funds:

#### **1.2 General Capital Reserve**

The Capital Reserve has been established to fund land acquisition, one-time general capital projects and capital that are not specifically funded from other established Reserves, including office furnishings, information technology, capital and building upgrades, and replacement.

#### **1.3 General Capital Renewal Reserve**

The Capital Renewal Reserve has been established to provide for expenditures associated with the rehabilitation, renewal or replacement of existing capital infrastructure as identified in the Asset Management Plan and the long-term capital plan.

#### **1.4 Vehicle and Equipment Replacement Reserve**

The Public Works Equipment Reserve has been established to fund replacement of municipal vehicles and equipment included in the District’s vehicle and equipment replacement plan (excluding fire).

### **1.5 Fire Department Vehicle and Equipment Replacement Reserve**

The Fire Fighting Equipment Reserve has been established to fund replacement of fire department vehicles and equipment included in the Fire Department's vehicle and equipment replacement plan.

### **1.6 Water Capital Reserve**

The purpose of the Water Capital Reserve is to fund water utility capital projects including any equipment/systems required for water operations.

### **1.7 Sewer Capital Reserve**

The purpose of the Sewer Capital Reserve is to fund sewer utility capital projects including any equipment/systems required for sewer operations.

### **1.8 Northern Capital & Planning Grant (NCPG) Reserve**

The Northern Capital & Planning Grant Reserve was established to place the Northern Capital & Planning grants received from the Province of BC. In March of 2019 the District received a Northern Capital and Planning Grant of \$4,727,000, and in March of 2020 a second payment of \$2,459,000. As per terms of the grant, Council must place its NCPG in a separate dedicated reserve fund for capital and long-term planning purposes.

### **1.9 Community Works Gas Tax Reserve**

The purpose of the Community Works Gas Tax Reserve is to account for funds received and used pursuant to the Community Works Gas Tax Agreement.

### **1.10 Climate Action Reserve**

In 2022 the District was approved for funding for three years by the Local Government Climate Action Program (LGCAP), the Climate Action Reserve was established to fund climate mitigation and adaptation strategies of either Local Government owned assets or public lands.

### **1.11 Growing Communities Reserve**

In 2023 the District received funding from the Province of British Columbia under the Growing Communities Fund (GCF) with the primary objective to increase local housing supply with investments in community infrastructure and amenities. As per terms of the grant, Council must place its GCF in a separate dedicated reserve fund for the Capital and Planning purposes of the GCF.

## **SECTION 2 – STATUTORY RESERVE FUNDS**

### **2.1 Parkland Acquisition Reserve**

Per subsection 188 (2) (b) of the *Community Charter*, funds received from the sale or disposal of parkland as well as funds received pursuant to section 941 of the *Local*

*Government Act* (parkland funds received upon subdivision) must be set aside in a Reserve and be used exclusively to purchase parkland. The Parkland Acquisition Reserve has been established for accumulating and expending monies as per this requirement.

### **SECTION 3 – UNAPPROPRIATED SURPLUSES**

**3.1** The District needs to maintain Unappropriated Surplus balances in each of its operating funds (the General Operating Fund, Water Operating Fund, and the Sewer Operating Fund), for working capital purposes, i.e., to provide for operating expenditures before property taxes or user fees are collected. Maintaining minimum working capital levels eliminates or reduces the need to borrow externally and/or internally for operations.

The District may also require emergency funds from time to time, from any one of its Unappropriated Surplus balances, for unforeseen costs. When this occurs, the District needs to rely upon sufficient balances being available in the applicable Unappropriated Surplus area (general, operating, water or sewer).

### **SECTION 4 – ADMINISTRATION**

#### **4.1 Reserve Contributions**

Annual and/or periodic contributions to Reserve Funds shall be specific to each Reserve, as approved by Council through the District's annual financial planning and budgeting process.

#### **4.2 Minimum and Optimum Reserve Balances**

Minimum and Optimum fund balance guidelines have been set for some of the District's Reserve Funds, Statutory Reserve Funds and Unappropriated Surpluses. The minimum balances ensure that the respective balances are not depleted to the degree that those balances are no longer able to serve their intended purpose(s). The Optimum balances ensure that the District's guiding principles are achieved and that the respective balances do not grow beyond their intended purpose(s) and thus create idle assets that could be otherwise utilized for other corporate priorities. A formal comparative review of actual, minimum and optimal fund balances shall be undertaken annually. If balances in any reserve fund fall below the minimum level a strategy must be outlined to replenish the fund within a 3-year period.

#### **4.3 Internal Borrowing**

Internal borrowing from specific Reserve Funds and Unappropriated Surplus shall be permissible as allowed for by legislation, if a clearly defined and attainable payback plan, including payment of foregone interest, is in place. Internal borrowing allows for more flexibility in terms of payback amounts and loan duration than that of external borrowing. Paybacks shall be executed according to plan.

#### **4.4 Responsibilities**

The District's Chief Financial Officer shall be responsible for:

- Recommending the necessary contributions and transfers so that the District's Reserve Funds, Statutory Reserve Funds and Unappropriated Surpluses are maintained in accordance with this Policy;
- Conducting an annual review of all Reserve Funds, Statutory Reserve Funds and Unappropriated Surplus balances and reporting the results of such a review to Council;
- Recommending any revisions or amendments to this Policy, as may be required from time to time, such as a result in changes in applicable statutes, accounting standards, and economic conditions.

#### **4.5 Interest**

Reserve Funds and Statutory Reserve Funds shall be paid and allocated interest based on average annual balances and the District's average rate of return on investments.

#### **4.6 Guide and Transition**

The minimum and optimal fund balance guidelines shown in this Policy serve as a guide in moving the District towards the goals or targets it wishes to attain, in terms of individual fund balances. It is recognized that the District's fund balances may not be at the minimum or optimal levels at the time of enacting this Policy, however, the District is transitioning towards its optimal targets.

**APPENDIX A: Reserve and Surplus Policy**

<b>RESERVE FUNDS</b>				
<b>Reserve Fund(s)</b>	<b>Purpose</b>	<b>Funding Source(s)</b>	<b>Minimum \$ Level</b>	<b>Optimum \$ Level</b>
<b>Financial Stability Reserve</b>	For one-time and intermittent projects, and to offset unrealized revenues.	Allocation from general operating budget as provided for in financial plan.  Other budgeted contributions from operations including any paybacks as a result of funds advanced for specific projects.	1% of General Operating Fund Revenues.	2.5% of General Operating Fund Revenues.
<b>General Capital Reserve</b>	For expenditures related to land acquisition, one-time capital projects and capital not specifically funded from other established Reserves.	Annual allocation from general operating budget (property taxation).	Sufficient to fund all one-time capital projects and new/additional assets identified as capital funded for the next 5 years of the 10-year capital plan.	Sufficient to fund all one-time capital projects and new/additional assets identified as capital funded in the 10-year capital plan.
<b>Capital Renewal Reserve</b>	For expenditures associated with the rehabilitation, renewal or replacement of existing capital infrastructure as identified in the Asset Management Plan and the long-term capital plan.	Annual allocation from general operating budget equal to 1.5% to 2% increase in property taxes (Capital Levy).	Sufficient to fund capital identified as renewal for the next 5 years in the 10-year capital plan.	Sufficient to fund capital identified as renewal in the 10-year capital plan.
<b>Vehicle and Equipment Replacement Plan</b>	For replacement of existing municipal vehicles and equipment included in the District's equipment replacement plan (excluding Fire)	Annual allocation from general, water and sewer operating budgets. Proceeds from the sale of municipal vehicles and equipment.	Sufficient to fund upcoming year of vehicle and equipment replacements.	Sufficient to fund all scheduled replacements internally without borrowing.

<b>Reserve Fund(s)</b>	<b>Purpose</b>	<b>Funding Source(s)</b>	<b>Minimum \$ Level</b>	<b>Optimum \$ Level</b>
<b>Fire Department Vehicle and Equipment Replacement Reserve</b>	For replacement of Fire vehicles and equipment included in the Fire Department vehicle and equipment replacement plan.	Annual allocation from general operating budget as provided for in financial plan.  Proceeds from the sale of fire vehicles and equipment.	Sufficient to fund upcoming year of vehicle and equipment replacements.	Sufficient to fund all scheduled replacements internally without borrowing.
<b>Water Capital Reserve</b>	For water utility capital required for water operations and/or identified in the Water Master Plan.	Annual allocation from water operating budget as provided for in financial plan.	Sufficient to fund capital identified as water capital funded for the next 5 years of the 10-year capital plan.	Sufficient to fund capital identified as water capital funded in the 10-year capital plan.
<b>Sewer Capital Reserve</b>	For sewer utility capital required for sewer operations and/or identified in the Sewer Master Plan.	Annual allocation from sewer operating budget as provided for in financial plan.	Sufficient to fund capital identified as sewer capital funded for the next 5 years of the 10-year capital plan.	Sufficient to fund capital identified as sewer capital funded in the 10-year capital plan.
<b>Northern Capital &amp; Planning Grant (NCPG) Reserve</b>	For capital and long-term planning purposes. Interest earned on this fund will be used as a funding source for the capital expenditures identified in the capital plan.	\$4,727,000 grant received from the Province in March of 2019, and an additional \$2,459,000 was received in March of 2020.	N/A	N/A
<b>Community Works Gas Tax Reserve</b>	To be used pursuant to the Community Works Gas Tax Agreement.	Federal Community Works Gas Tax funds distributed by the Union of BC Municipalities (UBCM).	N/A	N/A
<b>Climate Action Reserve</b>	To create a fund for climate mitigation and adaptation strategies of either Local Government owned assets or public lands and services.	To be funded by climate protection and sustainability funds such as LGCAP, annual allocation of 10%-15% of LGCAP grant amount from general operating budget, and other grants from funding sources related to climate change and sustainability.	\$5,000	\$250,000

<b>Growing Communities Reserve</b>	For Capital and Planning purposes of the Growing Communities Fund. Interest earned on this fund will be used as a funding source for the capital expenditures identified in the capital plan.	\$1,723,000 grant received from the Province of British Columbia in March 2023.	N/A	N/A
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### STATUTORY RESERVE FUNDS

Reserve Fund(s)	Purpose	Funding Source(s)	Minimum \$ Level	Optimum \$ Level
<b>Parkland Acquisition Reserve</b>	To purchase parkland as allowed for under the Local Government Act.	Developer cash contributions as per the requirement under the Local Government Act cash-in-lieu option.	N/A	Adequate balance to fund parkland acquisitions, per the long-term capital plan.

### UNAPPROPRIATED SURPLUSES

Reserve Fund(s)	Purpose	Funding Source(s)	Minimum \$ Level	Optimum \$ Level
<b>General Operating Surplus</b>	For working capital purposes within the general operating fund and for unforeseen general operating emergency expenditures.	Any excess general operating fund revenues (including property taxes) over expenditures and transfers at the end of each fiscal year.	Two months of regular general fund operating expenditures.	Three months of regular general fund operating expenditures.
<b>Water Operating Surplus</b>	For working capital purposes within the water operating fund and for unforeseen water operating emergency expenditures.	Any excess water operating fund revenues (including user fees) over expenditures and transfers (including capital transfers) at the end of each fiscal year.	Two months of regular water operating expenditures.	Three months of regular water fund operating expenditures.
<b>Sewer Operating Surplus</b>	For working capital purposes within the sewer operating fund and for unforeseen sewer operating emergency expenditures.	Any excess sewer operating fund revenues (including user fees) over expenditures and transfers (including capital transfers) at the end of each fiscal year.	Two months of regular sewer operating expenditures.	Three months of regular sewer fund operating expenditures.