

TITLE: MUNICIPAL RESERVES

RESOLUTION NUMBER: 2024-06-16

POLICY #: CP-008

EFFECTIVE DATE: JUNE 25, 2024

SUPERSEDES:

UP FOR REVIEW: 2028

PURPOSE

To outline the Town of Magrath's policy establishing standards and guidelines for the management of existing reserves and the establishment of new reserves, to outline the purpose of each reserve and parameters regarding the use of reserves.

The objectives of this policy are to establish, maintain and manage reserve funds that provide for emergent financial needs, stabilize tax and utility rates, set aside funds for the replacement of existing equipment, facilities, and future projects, and minimize the debt financing needs of the Town.

Reserves are vital to municipal financial health. Having healthy levels of reserves enables the town of Magrath to:

- Plan for future operating and capital needs of the municipality,
- Plan for contingencies,
- Help to reduce interest expense for debt,
- Generate investment income,
- Deal with the ebb and flow of cash management throughout the fiscal year.

Healthy reserves result from having a policy surrounding their management as well as effective long-term planning to determine correct reserve levels.

Definitions

Capital Reserve means the portion of unrestricted net assets that the Town maintains, or that the Council has designated for use in maintaining an adequate reserve to acquire or construct new capital assets and replace and rehabilitate major capital infrastructure assets as required.

Dedicated Reserves are the portion of unrestricted net assets 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 what they were collected for.

Depreciation means the amortization amount of fixed assets, such as buildings and equipment, to allocate the cost over its useful life. It is a process of cost allocation and not valuation. Depreciation increases expenses but does not reduce cash.

Emergency Repair means a repair to infrastructure or a facility that is urgent in order to prevent further damage or losses or the shutdown of the facility.

Operating Expenses means the annual expenditures to fund regular operations for greater certainty, and do not include transfers from operating to fund capital expenditures, transfers to reserves, internal transfers between departments, and funds expended on non-tangible capital assets.

Operating Reserves means the portion of unrestricted net assets that the Town maintains, or that Council has designated (or “restricted”) for use in:

- a) Emergencies to sustain financial operations for a reasonable period in the event of significant and unanticipated, unbudgeted increases in operating expenses and/or losses in operating revenue, and/or
- b) Funding budgeted contingencies for non-emergent but unpredictable revenues, volatile expenditures, and unanticipated opportunities and/or challenges, and/or
- c) Funding for the mitigation of tax rate increases.

Program Specific Reserves means the portion of unrestricted net assets that the Town maintains, or that the Council has designated (or “restricted”) for use in specific initiatives or programs for which the funds are collected.

POLICY STATEMENTS

General Guidelines

1. All reserve transfers, re-designations, revisions, and new account requests must be approved by the Council. Approvals may be in the form of:
 - a) The annual operating or capital budget approval,
 - b) A carryover project that was contained in an approved operating or capital budget, or
 - c) A Council resolution.
2. Transfers to reserves will be restricted to the following sources:
 - a) Transfers from tax base or budget surpluses as approved by Council.
 - b) Direct cash receipts such as grants, sale of fixed assets and land, or any other cash receipts as authorized by the Council.
 - c) Investment income earned on reserve funds.
3. Draws from reserves must not exceed the fund balance unless it can be demonstrated to the Council that future sources of revenue will provide adequate funding to return the fund to a positive balance.

4. All operating and capital reserve funds must be fully described and include a description, optimum or target level, and the rationale used to establish the levels.
5. Before creating a new reserve fund, the option of adding an incremental contribution to an existing fund of a similar nature will be considered.
6. The prescribed fund limits will be reviewed by the Council at least once each term of office.
7. The Town will aim to accumulate reserve funds in accordance with Schedule "A".
8. Program-specific reserve funds are intended to accumulate the money collected for specific initiatives or programs stipulated at the time of collection.

Management of the Reserve Funds

1. Under the direction of the council, the Chief Administrative Officer or their designate will ensure funds are invested according to the guidelines set out by provincial legislation.
2. Reserve funds will be drawn down only under circumstances specific to the individual reserve fund.
3. For reporting purposes, the reserve funds will be listed separately in the Town's financial statements.

Responsibilities

1. Only the Council can approve the drawing down of a fund for normal operating or capital purposes. The CAO may approve the use of funds when a State of Local Emergency (SOLE) has been declared or in the case of an emergency repair without the consultation or approval of Council.
2. The Finance Committee will review the reserves policy at least every term of Council, or sooner if conditions warrant, and provide recommendations for Council approval.
3. The administration will annually provide the Council with:
 - a) Actual year-end reserve fund balances.
 - b) Five-year, projected, uncommitted reserve fund balances.
 - c) Five-year, anticipated reserve contributions and draws.