

	<b>Financial Reserves</b>	
	<b>Policy Type:</b>	Governance Process
	<b>Number:</b>	GP-F-2.5
	<b>To be Reviewed:</b>	Once per term
	<b>Approval Date:</b>	June 14, 2021
	<b>Motion Number:</b>	21.C.265
	<b>Revised Date(s):</b>	

### Policy Statement

To maintain consistent standards for the management of Reserves and execution of Reserve Transactions and to ensure that all Reserve Transactions are approved by Council and carried out in accordance with Council's approval.

### Objective

A Reserve Policy is a prudent business practice that will enhance the Town of Okotoks' financial strength, flexibility, cash flow management, and ability to achieve Council's Strategic Plan priorities.

This policy will establish, maintain and manage Reserve funds that:

- maintain and improve Okotoks' working capital requirements;
- provide for future funding requirements;
- provide stabilization for fluctuations in operating and capital activities; and
- provide for Off Site Levy Capital Reserves to track use and funding activities.

### Definitions

1. Committed Balance – Funding approved by Council and to be applied towards specific expenditures.
2. Designated Balance – Funding designated to Reserves for a specific purpose, which has not yet been approved by Council to be applied towards specific expenditures.
3. Optimal Balance – Where applicable, Reserves will require a minimum or maximum recommended balance for the Reserve. These recommendations will be a formula based on adequate levels to maintain services as determined by business centres, endorsed by the Strategic Leadership Team, and approved by Council. Schedule "A" of the policy will provide a listing of the Reserve Descriptions and their recommended formulas, if applicable.
4. Redesignation of Reserve Funds – The process to change the purpose of Reserved funds from one Reserve to another.
5. Release of Reserve Funds – Reserve funds for which the purpose has been fulfilled or changed and is consequently closed. Any funding resulting from the release of a Reserve will be identified for redesignation to another Reserve or general surplus.

6. Reserve – Reserves are created when funds are set aside (designated) for a future purpose. Funds within a Reserve are restricted and will be applied as outlined in the approved Reserve Description.
7. Reserve Description – A listing of Reserve Descriptions is found in Schedule “A and B” of this policy. Each Reserve Description contains the following:
  - the overall purpose of the Reserve;
  - the target levels (minimum and maximum) of the Reserve;
  - the source of the Reserve Funds;
  - the conditions for the use of the Reserve Funds;
  - the replenishment and use of excess Reserve Funds; and
  - the timing of the periodic reviews of Reserve Fund purposes and targets.
8. Reserve Transaction – The following activity is considered a Reserve Transaction:
  - contributions to the Reserve from internal or external sources;
  - withdrawals from the Reserve to fund expenditures;
  - redesignation of the Reserve Funds;
  - release of the Reserve Funds; and
  - creation of a new Reserve.

### **Guidelines**

1. All Reserve Transactions will be approved by Council.
2. Funding to and from the Reserve will be approved through Council through:
  - existing Council policies;
  - the budget process;
  - the year end Reserve request and approval process;
  - the approved Reserve Description; or
  - Council resolution.
3. All Reserves will be administered in accordance with current Council policies and the Public Sector Accounting Principles.
4. Reserves will be funded from internal or external sources as defined in the Reserve Descriptions.
5. As part of the year end Reserve request and approval process, any potential Release of Reserve Funds or Redesignation of Reserve Funds will be identified.
6. As part of the year end process for Reserves that have Optimal Balances, an assessment will be made between the actual designated Reserve balance and the recommended Optimal Balance. Reserves which are lower than their established Optimal Balance will be considered in the distribution of the annual operating surplus. Reserves which exceed their established Optimal Balance will be considered for Redesignation. Strategies to maintain the Optimal Balance will be addressed through the business plan and budget cycles. Schedules “A” and “B” detail the formula calculations to be used in determining the Optimal Balance for the reserves that have been identified to require an Optimal Balance.

7. a) Interest earning will be applied to the Reserves which have been deemed interest bearing as listed below:

- Capital Reserve - General Capital
- Capital Reserve - Storm Lifecycle
- Capital Reserve - Water Lifecycle
- Capital Reserve - Sanitary Lifecycle
- Capital Reserve - Waste Lifecycle
- Capital Reserve - Cultural Facilities
- Capital Reserve - MR Lands
- Capital Reserve - Water Acreage Assessment \*
- Capital Reserve - Sanitary Acreage Assessment \*
- Capital Reserve - Trans Acreage Assessment \*
- Operating Reserve - General Operating
- Operating Reserve - Cemetery

\*Subject to OSL Bylaw

b) Where negative account balances exist interest charges will apply.

8. Regular reporting on the Reserves will occur through the annual reconciliation report which will indicate the total of Reserves, as set out in Schedule "C".

**ATTACHMENTS:**

Schedule "A" Operating Reserves

Schedule "B" Capital Reserves

Schedule "C" Annual Reserve Fund Level Reconciliation Report

**SCHEDULE A**  
Operating Reserves

<b>TAX RATE STABILIZATION</b>	
Purpose:	To support any deficits and fund any day to day operations. Provide funding for annexation agreement payments.
Target Levels:	Minimum: \$500,000.00 Maximum: TBD
Source of Funding:	Pre-determined amount as a % of Property Taxes or sources as recommended by administration.
Optimal Balance:	TBD (i.e. 5% of prior net year's municipal tax levy)
Conditions for Use:	As required or as recommended by administration for specific expenditures or part of the budget process.
Replenishment/use of excess:	TBD
Review of Purpose/Target Levels:	YYYY/MM/DD
Approved by Council:	

<b>OPERATING GENERAL</b>	
Purpose:	To provide funding for operating and multi-year projects that will be undertaken in the future, to build funding for non-annual programs, and to assist in meeting future funding requirements for projects such as asset management, contracts for development of various plans and software purchasing including water licences.
Target Levels:	Minimum: \$1,000,000.00 Maximum: TBD
Source of Funding:	Budget transfers Allocation of the year end operating surplus Other sources
Optimal Balance:	TBD (i.e. 5% of prior year's municipal operating expenses)
Conditions for Use:	As required or as recommended by administration for specific expenditures or part of the budget process.
Replenishment/use of excess:	TBD
Review of Purpose/Target Levels:	YYYY/MM/DD
Approved by Council:	

<b>WATER AND SANITARY</b>	
Purpose:	To provide funds to for Water and sanitary operating expenses
Target Levels:	Minimum: \$0.00 Maximum:\$550,000.00
Source of Funding:	Budget transfers Allocation of the year end operating surplus Other sources
Optimal Balance:	Target level at 5% water and 10% sanitary combined total of annual operating expenses.
Conditions for Use:	As required or as recommended by administration for specific expenditures or part of the budget process.
Replenishment/use of excess:	N/A
Review of Purpose/Target Levels:	YYYY/MM/DD
Approved by Council:	

<b>WASTE</b>	
Purpose:	To provide funds to for waste operating expenses
Target Levels:	Minimum:\$0.00 Maximum:\$300,000.00
Source of Funding:	Budget transfers Allocation of the year end operating surplus Other sources
Optimal Balance:	10% of annual operating expenses
Conditions for Use:	As required or as recommended by administration for specific expenditures or part of the budget process.
Replenishment/use of excess:	TBD
Review of Purpose/Target Levels:	YYYY/MM/DD
Approved by Council:	

<b>ENGINEERING INSPECTION</b>	
Purpose:	To support Engineering Services
Target Levels:	Minimum: Maximum:
Source of Funding:	2021 Rates and Fees as a fixed fee per Ha as part of the Development Agreement process
Optimal Balance:	TBD
Conditions for Use:	As required or as recommended by administration for specific expenditures or part of the budget process.
Replenishment/use of excess:	N/A

Review of Purpose/Target Levels:	YYYY/MM/DD
Approved by Council:	

**CEMETERY**

Purpose:	To be used to maintain cemetery in perpetuity
Target Levels:	Minimum: \$300,000.00 Maximum: No limit
Source of Funding:	Cemetery Sales
Optimal Balance:	TBD
Conditions for Use:	As required or as recommended by administration for specific expenditures or part of the budget process.
Replenishment/use of excess:	Leave in fund
Review of Purpose/Target Levels:	YYYY/MM/DD
Approved by Council:	

**FCSS**

Purpose:	Should be used by 2022. No longer required.
Target Levels:	Minimum: Maximum:
Source of Funding:	Legacy Funding
Optimal Balance:	N/A
Conditions for Use:	Use under FCSS guidelines
Replenishment/use of excess:	None
Review of Purpose/Target Levels:	YYYY/MM/DD
Approved by Council:	

**SCHEDULE B**  
Capital Reserves

<b>CAPITAL GENERAL</b>	
Purpose:	To support the replacement of all existing assets and purchase of new assets (including Land) for non-utilities capital.
Target Levels:	Minimum: TBD Maximum TBD
Source of Funding:	Budget transfers Voluntary payments from Developers.
Optimal Balance:	TBD
Conditions for Use:	As required or as recommended by administration for specific expenditures or part of the budget process.
Replenishment/use of excess:	N/A
Review of Purpose/Target Levels:	YYYY/MM/DD
Approved by Council:	

<b>CULTURE</b>	
Purpose:	To support cultural projects including the Performing Arts Centre
Target Levels:	Minimum: 0.00 Maximum: TBD
Source of Funding:	Legacy Funds
Optimal Balance:	TBD
Conditions for Use:	As required or as recommended by administration for specific expenditures or part of the budget process.
Replenishment/use of excess:	TBD
Review of Purpose/Target Levels:	YYYY/MM/DD
Approved by Council:	

<b>MUNICIPAL RESERVES LANDS</b>	
Purpose:	To tracking MR land transactions
Target Levels:	Minimum:\$0.00 Maximum: Unlimited
Source of Funding:	Municipal Reserve land transactions
Optimal Balance:	N/A
Conditions for Use:	As required or as recommended by administration for specific expenditures or part of the budget process.
Replenishment/use of excess:	N/A
Review of Purpose/Target Levels:	YYYY/MM/DD
Approved by Council:	

<b>Local Developer Contributions</b>	
Purpose:	Related to Development Agreements (this approach has been phased out and should be zero balance in the next year or so)
Target Levels:	Minimum: N/A Maximum: N/A
Source of Funding:	Legacy Developer Agreements
Optimal Balance:	N/A
Conditions for Use:	Approved Transportation Projects identified by Engineering
Replenishment/use of excess:	N/A
Review of Purpose/Target Levels:	YYYY/MM/DD
Approved by Council:	

<b>WATER LIFECYCLE</b>	
Purpose:	To support replacement of existing utility infrastructure and funding of new utility assets.
Target Levels:	Minimum: TBD Maximum: TBD
Source of Funding:	Rates and User fees
Optimal Balance:	TBD
Conditions for Use:	As required or as recommended by administration for specific expenditures or part of the budget process.
Replenishment/use of excess:	N/A
Review of Purpose/Target Levels:	YYYY/MM/DD
Approved by Council:	

<b>SANITARY LIFECYCLE</b>	
Purpose:	To support replacement of existing utility infrastructure and funding of new utility assets.
Target Levels:	Minimum: TBD Maximum: TBD
Source of Funding:	Rates and User fees
Optimal Balance:	TBD
Conditions for Use:	As required or as recommended by administration for specific expenditures or part of the budget process.
Replenishment/use of excess:	N/A
Review of Purpose/Target Levels:	YYYY/MM/DD
Approved by Council:	



<b>STORM LIFECYCLE</b>	
Purpose:	To support replacement of existing utility infrastructure and funding of new utility assets
Target Levels:	Minimum: TBD Maximum: TBD
Source of Funding:	Rates and User fees
Optimal Balance:	N/A
Conditions for Use:	As required or as recommended by administration for specific expenditures or part of the budget process.
Replenishment/use of excess:	N/A
Review of Purpose/Target Levels:	YYYY/MM/DD
Approved by Council:	

<b>WASTE COLLECTION LIFECYCLE</b>	
Purpose:	To support replacement of existing utility infrastructure and funding of new utility assets
Target Levels:	Minimum: TBD Maximum: TBD
Source of Funding:	Rates and User fees
Optimal Balance:	TBD
Conditions for Use:	As required or as recommended by administration for specific expenditures or part of the budget process.
Replenishment/use of excess:	N/A
Review of Purpose/Target Levels:	YYYY/MM/DD
Approved by Council:	

<b>OFF-SITE LEVIES CAPITAL (WATER/SANITARY/TRANSPORTATION)</b>	
Purpose:	To support the tracking of Developer offsite levies balances reported by the town
Target Levels:	Minimum: N/A Maximum: N/A
Source of Funding:	Signed Development Agreements
Optimal Balance:	N/A
Conditions for Use:	As required or as recommended by administration for specific expenditures or part of the budget process.
Replenishment/use of excess:	N/A
Review of Purpose/Target Levels:	YYYY/MM/DD
Approved by Council:	

**SCHEDULE C****Annual Reserve Fund Level Reconciliation Report**

<b>Reserve Name</b>	<b>Minimum Level</b>	<b>Maximum Level</b>	<b>Minimum Level Based on 2021 Financial Plan</b>	<b>Maximum Level Based on 2021 Financial Plan</b>	<b>Total Only 2020 Audited Financial Statements</b>
Tax Rate Stabilization	\$500,000.00	TBD	TBD	TBD	\$1,500,000.00
General Operating	1,000,000.00	TBD	TBD	TBD	6,396,554.47
Water and Sanitary Reserve	TBD	\$500,000.00	TBD	TBD	415,483.62
Waste	TBD	\$300,000.00	TBD	TBD	287,700.00
Engineering Inspection	TBD	TBD	TBD	TBD	774,815.50
Cemetery	\$300,000.00	TBD	TBD	TBD	491,125.75
FCSS	N/A	N/A	TBD	TBD	6,551.03
<b>Sub Total Operating</b>			TBD	TBD	<b>\$9,872,230.37</b>

Reserve Name	Minimum Level	Maximum Level	Minimum Level Based on 2021 Financial Plan	Maximum Level Based on 2021 Financial Plan	Total Only 2020 Audited Financial Statements
General Capital Reserve	TBD	TBD	TBD	TBD	\$27,737,192.90
Cultural Facilities	\$0.00	TBD	TBD	TBD	4,357,881.28
MR Lands	\$0.00	N/A	TBD	TBD	105,321.28
Local Developer Contributions	N/A	N/A	TBD	TBD	705,398.90
Water Lifecycle	TBD	TBD	TBD	TBD	2,375,089.22
Sanitary Lifecycle	TBD	TBD	TBD	TBD	1,086,652.35
Storm Sewer Lifecycle	TBD	TBD	TBD	TBD	3,445,713.69
Waste Lifecycle	TBD	TBD	TBD	TBD	491,750.74
Water Acreage Assessment	N/A	N/A	TBD	TBD	751,725.39
Sanitary Acreage Assessment	N/A	N/A	TBD	TBD	(9,748,300.62)
Trans Acreage Assessment	N/A	N/A	TBD	TBD	(2,360,968.47)
<b>Sub Total Capital</b>			TBD	TBD	<b>\$28,947,983.66</b>

Town of Okotoks									
Operating Reserves									
As of Dec 31, 2020									
GL Account #		Utilities	Remaining			Consolidate or Transfer	New Balances Jan 1, 2021		
4-710-110-040	Tax Rate Stabilization		1,500,000.00				1,500,000.00		
4-710-120-100	General Operating		5,632,662.16			763,892.31	6,396,554.47		
4-710-170-010	Health Spending Account		137,544.29			(137,544.29)	0.00		
4-710-170-020	Benefit Program Contingency		386,348.02			(386,348.02)	0.00		
4-710-210-020	Policing		240,000.00			(240,000.00)	0.00		
4-710-410-020	Utility ( Water and Sanitary)	415,483.62					415,483.62		
4-710-440-010	Waste	287,700.00					287,700.00		
4-710-630-010	Acreage Engineering Inspection		774,815.50				774,815.50		
4-710-560-020	Cemetery		491,125.75				491,125.75		
4-710-510-010	FCSS		6,551.03				6,551.03		
<b>Grand Total</b>		<b>703,183.62</b>	<b>9,169,046.75</b>	<b>9,872,230.37</b>			<b>9,872,230.37</b>		

Town of Okotoks									
Capital Reserves									
As of Dec 31, 2020									
GL Account #		2020	OSL	Utilities	Remaining			Consolidate or Transfer	New Balances Jan 1, 2021
4-760-120-010	General Capital	27,737,192.90			27,737,192.90				27,737,192.90
4-760-740-040	Cultural Facilities	4,357,881.28			4,357,881.28				4,357,881.28
4-760-750-020	Municipal Reserve - Lands	105,848.28			105,848.28				105,848.28
4-760-320-050	Local Developer Contributions	705,398.90			705,398.90				705,398.90
4-760-410-020	Water Lifecycle	2,375,089.22		2,375,089.22					2,375,089.22
4-760-420-020	Sanitary Lifecycle	1,086,652.35		1,086,652.35					1,086,652.35
4-760-370-020	Storm Lifecycle	3,445,713.69		3,445,713.69					3,445,713.69
4-760-430-020	Waste Lifecycle	491,750.74		491,750.74					491,750.74
4-760-410-010	Water Acreage Assessment - OSL	751,725.39	751,725.39						751,725.39
4-760-420-010	Sanitary Acreage Assessment - OSL	(9,748,300.62)	(9,748,300.62)						(9,748,300.62)
4-760-320-010	Trans Acreage Assessment - OSL	(2,360,968.47)	(2,360,968.47)						(2,360,968.47)
		<b>32,396,084.11</b>	<b>(11,357,543.70)</b>	<b>7,399,206.00</b>	<b>32,906,321.36</b>	<b>28,947,983.66</b>		0.00	<b>28,947,983.66</b>