
Date

The following repeals and replaces Reserve Fund Policy 149, 2016 which was adopted as Policy by **Resolution No. 16.11.278** at the **Special Council Meeting** held on **November 29, 2016**.

Purpose

The Policy provides guidance on the development, maintenance and use of financial reserve funds.

Policy

1. PRINCIPLES

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 commitment to long range infrastructure and master plans. The following guiding principles form the basis of this policy:

- 1.1. Sufficient reserve funds are important in achieving financial health and stability for the District.
- 1.2. Reserve goals need to be consistent with and support established long term financial plans.
- 1.3. 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.

2. DEFINITIONS

“annual surplus” means the accumulated excess of revenues over expenditures for the current year.

“District” means the organization of the District of Lake Country.

“reserve funds” means funds that are set aside for a specified purpose by Council pursuant to subsection 188 (1) 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 of 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.

3. RESERVES

3.1. OPERATING RESERVE FUNDS

(a) Financial Stabilization Reserve Fund

Purpose:

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. Funds may be used during the budget process as a transfer from reserves to offset cyclical revenue declines.

One time and intermittent projects – the District undertakes certain on 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 master plan updates and Official Community Plan (OCP) updates.

Cyclical expenditures – the District has some cyclical expenditures that do not reoccur annually but may reoccur every two or more years. An annual cost would be determined and included as an expenditure in the Financial Plan with an offsetting transfer to the reserve until the year required. Some examples include elections or satisfaction surveys.

Funding Source	Minimum Level	Maximum Level
<ul style="list-style-type: none"> Annual allocation from general operating budget as provided for in financial plan Transfer of any development revenues over and above established base amounts, if and when available 	1% of general operating fund revenues, rounded to the nearest \$100,000	2.5% of general operating fund revenues, rounded to the nearest \$100,000

(b) Policing Reserve Fund

Purpose:

To offset the cost of special policing major crimes, DNA analysis costs or other unexpected expenditures. Major policing expenditures can come forward without any forewarning and it is often not possible to fund these projects via taxation or other reserves. Funds can also be used for capital expenditures as related to policing. As the District’s population grows, the funds in this reserve can be used in assisting with smoothing of additional policing costs to prevent spiking of tax rates related to policing.

Funding Source	Minimum Level	Maximum Level
<ul style="list-style-type: none"> Annual allocation from the RCMP budget as provided for in financial plan Excess traffic fine sharing revenue not utilized within the annual policing operations Savings from the policing operational budget 	10% of RCMP contract expenditures rounded to the nearest higher \$100,000	50% of RCMP contract expenditures rounded to the nearest higher \$100,000

(c) Solid Waste Reserve Fund

Purpose:

To assist with the funding of solid waste containers, which are required to be replaced or upgraded on a regular two to three year cycle. This reserve could also be used to assist with capital costs related to establishing infrastructure for the purposes of solid waste or recycling services.

Funding Source	Minimum Level	Maximum Level
<ul style="list-style-type: none"> Annual allocation from solid waste operating budget as provided for in financial plan Savings from the solid waste operational budget 	5% of annual revenue from garbage and recycling user fees, rounded to the nearest higher \$10,000	25% of annual revenue from garbage and recycling user fees, rounded to the nearest higher \$10,000

(d) Fire Operations Reserve Fund

Purpose:

To offset the cost of wildfire events not covered under other emergency funding. Major wildfire expenditures can happen in any year without any forewarning and it is often not possible to fund these events via taxation or other reserves.

Funding Source	Minimum Level	Maximum Level
<ul style="list-style-type: none"> Annual allocation from Fire operational budget as provided for in financial plan Unbudgeted revenue received as a result of fire crews being redeployed to fires outside of the District Savings from the fire operational budget 	5% of fire operational expenditures rounded to the nearest higher \$100,000	20% of fire operational expenditures rounded to the nearest higher \$100,000

(e) Insurance and Legal Reserve Fund

Purpose:

To provide a source of funds for liability claims not covered under our insurance policies and to offset the cost of major legal costs or claims of which the magnitude and timing is often indeterminable.

Funding Source	Minimum Level	Maximum Level
<ul style="list-style-type: none"> Annual allocation from general operating budget as provided for in financial plan Savings from legal and insurance operational budget 	\$10,000	\$50,000

3.2. CAPITAL RESERVE FUNDS

(a) Capital Reserve Fund

Purpose:

To fund general capital projects that are not specifically funded from other established reserves or user fees. Capital projects that will be funded from this reserve are budgeted within the District’s long term capital plan.

Funding Source	Minimum Level	Maximum Level
<ul style="list-style-type: none"> Annual allocation from general operating budget as provided for in financial plan 	Adequate to fund capital projects identified as capital funded for the next fiscal year of the 5 year capital plan	Adequate to fund all capital projects identified as capital funded in the 5 year capital plan

(b) Climate Action Reserve Fund

Purpose:

The District recognizes the importance of reducing greenhouse gas (GHG) emissions through projects that reduce fossil fuel consumption. Reducing GHG emissions is part of Lake Country’s commitment as a signatory to the BC Climate Action Charter. Funds in this reserve will be used for projects that reduce greenhouse gas emissions, replacement of equipment in the Hydroelectric Generating Station or early retirement of related debt, as funds permit.

Funding Source	Minimum Level	Maximum Level
<ul style="list-style-type: none"> Net revenue earned by the Lake Country Hydroelectric Generating Station 	Adequate to fund capital projects as related to renewal of the Hydroelectric	No maximum – the source of funds for this reserve cannot be reallocated if there is a

<ul style="list-style-type: none"> • Revenue from the Climate Action Revenue Incentive grant • Equivalent of what would be paid to purchase carbon offsets for the carbon produced 	Generating Station in the 5 year capital plan.	maximum on this reserve fund.
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(c) Transportation Infrastructure Reserve Fund

Purpose:

To fund designated road capital projects required for road operations or as identified in the transportation for tomorrow plan.

Funding Source	Minimum Level	Maximum Level
<ul style="list-style-type: none"> • Annual allocation from general operating budget as provided for in financial plan and as determined by Council resolution 15.12.301 	Adequate to fund capital projects identified as roads reserve funded for the next fiscal year of the 5 year capital plan	Adequate to fund all capital projects identified as roads reserve funded in the 5 year capital plan

(d) Equipment Acquisition and Replacement Reserve Fund

Purpose:

To fund the acquisition of municipal vehicles and equipment in accordance with an acquisition plan and the replacement of municipal vehicles and equipment according to planned replacement schedules.

Funding Source	Minimum Level	Maximum Level
<ul style="list-style-type: none"> • Annual allocation from general operating budget as provided for in financial plan • Proceeds from the sale of municipal vehicles and equipment 	Minimum funds available to fund the next year of vehicle and equipment acquisitions and replacements.	Funds for all scheduled vehicle and equipment acquisitions and replacements in the 5 year financial plan.

(e) Fire Facilities and Equipment Reserve Fund

Purpose:

To fund the replacement of fire vehicles and equipment according to planned replacement schedules and planned maintenance, upgrades, additions or improvements to fire buildings.

Funding Source	Minimum Level	Maximum Level
<ul style="list-style-type: none"> Annual allocation from fire operating budget as provided for in financial plan Proceeds from the sale of fire vehicles and equipment Funds received for amenity provisions under the Density Bonusing clause in the Zoning Bylaw 	Minimum funds available to fund the next year of fire facilities, vehicle and equipment replacements and capital expenditures.	Funds for all scheduled fire facility capital expenditure and vehicle and equipment replacements in the 5 year financial plan.

(f) Information Technology (IT) Reserve Fund

Purpose:

To fund information system and technology projects including communications systems. Technology can change rapidly within the information technology area and often comes at a large cost. This reserve is needed to keep pace with technology and to take advantage of technological improvement/efficiency opportunities. Due to the industry trend towards Software as a Service (SaaS) compared to Software as a Product more and more IT systems that used to be capital in nature are now considered operating and as such this reserve is intended to fund both capital and SaaS operating IT projects.

Funding Source	Minimum Level	Maximum Level
<ul style="list-style-type: none"> Annual allocation from general operating budget as provided for in financial plan 	Adequate to fund projects identified as IT related for the next fiscal year of the 5-year financial plan.	Adequate to fund all projects identified as IT related in the 5-year financial plan.

(g) Facilities Reserve Fund

Purpose:

To fund expenditures for major repairs, upgrading, replacement or expansion of municipal buildings, ancillary structures and site services that serve as public spaces.

Funding Source	Minimum Level	Maximum Level
<ul style="list-style-type: none"> Annual allocation from general operating budget 	Adequate to fund capital projects identified as facilities	Adequate to fund all capital projects identified as facilities

as provided for in financial plan	capital funded for the next fiscal year of the 5 year capital plan.	related capital funded in the 5 year capital plan.
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(h) Community Works Gas Tax Reserve Fund

Purpose:

To account for funds received and used pursuant to the Community Works Gas Tax Agreement. Projects funded by this account must be in compliance with acceptable uses as defined in the community Works Gas Tax Agreement.

The intent is to spend all funds received, per our Community Works Gas Tax Agreement.

Funding Source	Minimum Level	Maximum Level
<ul style="list-style-type: none"> Federal Community Works Gas Tax Funds 	N/A – intend to spend all funds received	N/A – funds from this source have specified use and cannot be reallocated to other reserves if there was a maximum value placed on this fund.

(i) Water Capital Reserve Fund

Purpose:

To fund water utility capital projects required for water operations or as identified in the Water Master Plan.

Funding Source	Minimum Level	Maximum Level
<ul style="list-style-type: none"> Annual allocation from water operating budget as provided for in financial plan 	Adequate to fund capital projects identified as water capital funded for the next fiscal year of the 5 year capital plan.	Adequate to fund all capital projects identified as water capital funded in the 5 year capital plan.

(j) Sewer Capital Reserve Fund

Purpose:

To fund sewer utility capital projects required for sewer operations or identified in the Sewer Master Plan.

Funding Source	Minimum Level	Maximum Level
<ul style="list-style-type: none"> Annual allocation from sewer operating budget as provided for in financial plan 	Adequate to fund capital projects identified as sewer capital funded for the next fiscal year of the 5 year capital plan.	Adequate to fund all capital projects identified as sewer capital funded in the 5 year capital plan.

(k) Roads Maintenance Services Reserve Fund

Purpose:

If snow accumulations along roadways from clearing operations reach a level that impede further snow clearing operations, it is the responsibility of the District to remove (or pay a contractor to remove) the snow to a storage area. The frequency and cost of this is entirely dependent on unpredictable weather patterns. This reserve is to account for the risk being borne by the District and ensure funds are in place in the event of a heavy snowfall year.

Funding Source	Minimum Level	Maximum Level
<ul style="list-style-type: none"> Annual allocation from transportation budget as provided for in financial plan 	Maintain balance of \$100,000	Maintain balance of \$100,000

(l) Transit Reserve Fund

Purpose:

BC Transit bills are based on actual expenditures instead of budgeted expenditures. As ridership and expenses can fluctuate, the transit reserve fund is intended to allow the District to absorb the financial impact of unfavorable years and unforeseen events and provide the financial flexibility to pursue new opportunities in transit when they arise.

Funding Source	Minimum Level	Maximum Level
<ul style="list-style-type: none"> Annual allocation from transit budget as provided for in financial plan 	5% of budgeted net operating expenditures	10% of budgeted net operating expenditures

3.3. STATUTORY RESERVE FUNDS

(a) Development Cost Charge (DCC) Reserve Funds

Purpose:

As per subsection 188(2)(a) of the *Community Charter*, separate Reserves need to be established for DCC collections and use, under section 566 of the *Local Government Act*. The following DCC Reserves have been established for the purpose so identified in the associated DCC bylaw and are as follows:

- (i) Roads DCC
- (ii) Sewer DCC
- (iii) Parks DCC
- (iv) Drainage DCC
- (v) Water DCC

(b) Parkland Acquisition Reserve Fund

Purpose:

As 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 510 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.

(c) Land Sale Reserve Fund

Purpose:

As per subsection 188(2)(e) of the *Community Charter* funds received from the sale of land and improvements must be set aside for paying any debt remaining in relation to the property and for acquiring land, improvements and other assets of a capital nature. The Land Sale Reserve has been established for accumulating and expending monies as per this requirement.

(d) Access to Body of Water Reserve Fund

Purpose:

As per section 41(1)(d) of the *Community Charter* funds received from the sale of highway must be placed to the credit of reserve fund to be used to acquire property that Council considers will provide public access to the same body of water that is of at least equal benefit to the public.

4. UNAPPROPRIATED SURPLUSES

The District needs to maintain Unappropriated Surplus balances in its three operating funds (the General Operating Fund, the Sewer Operating Fund and the Water 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).

Funding Source	Minimum Level	Maximum Level
General Fund • Any excess general operating fund revenues over expenditures and transfers at the end of each fiscal year	Two months of regular general fund operating expenditures, rounded to the nearest higher \$100,000	Three months of regular general fund operating expenditures, rounded to the nearest higher \$100,000
Sewer Fund • Any excess sewer operating fund revenues over expenditures and transfers at the end of each fiscal year	Two months of regular sewer fund operating expenditures, rounded to the nearest higher \$100,000	Three months of regular sewer fund operating expenditures, rounded to the nearest higher \$100,000
Water Fund • Any excess water operating fund revenues over expenditures and transfers at the end of each fiscal year	Two months of regular water fund operating expenditures, rounded to the nearest higher \$100,000	Three months of regular water fund operating expenditures, rounded to the nearest higher \$100,000

5. ADMINISTRATION

5.1. 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

5.2. Minimum and Maximum Reserve Balances

Minimum and maximum 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 maximum balances ensure the District’s guiding principles are achieved and 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.

5.3. Internal Borrowing

Internal borrowing from specific Reserve Fund, Unappropriated Surplus and Statutory Reserve Fund balances 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.

5.4. Responsibilities

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

- (a) 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;
- (b) Conduct an annual review of all Reserve Fund, Statutory Reserve Fund and Unappropriated Surplus balances and reporting the results of such a review to Council; and

- (c) Recommending revisions or amendments to this Policy, as may be required from time to time, as a result in changes in applicable statutes, accounting standards, economic conditions, etc.

5.5. 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.

5.6. Guide

The minimum and maximum fund balance guidelines shown in this Policy serve as a guide in moving the District towards the goals and targets it wishes to attain in terms of individual fund balances. It is recognized that the District's fund balances are not all within these ranges at the time of amending this Policy, however the District is working towards achieving these ranges. It should also be noted that in certain instances it will be in the best interest of the District to purposely build certain reserve balances above the maximums outlined above such as in the case of major multi-year projects. These should be identified during the annual formal review of the reserve balances.

Original signed by James Baker

Mayor

Original signed by Reyna Seabrook

Corporate Officer