



CITY OF WEST KELOWNA

COUNCIL POLICY MANUAL

Pages: 1 of 8

Approval Date: November 24, 2015

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| SECTION: FINANCE |
| SUBJECT: RESERVE FUND POLICY |

Policy Statement:

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:

- Sufficient reserve funds are important in achieving financial health and stability for the City of West Kelowna.
- 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.

Purpose:

To provide guidance on the development, maintenance and use of financial reserve funds.

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 City bylaws and are discretionary on the part of Council. The reserve funds can be operating or capital in nature.

“Reserves” means all of the City’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 City bylaws and are non-discretionary on the part of Council.

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

SECTION 1 – RESERVES

Operating Reserve Funds:

Reserve for Future Expenditures

Purpose:

For One-time and Intermittent Projects – The City 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 City’s revenue sources, (i.e. development fees, building permits), are cyclical in nature and thus are subject to downturns in the economy. The City tries to anticipate economic downturns during budget processes but despite best efforts may be exposed to the possibility of unrealized or declining revenues.

| 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 |

Policing Reserve Fund

Purpose:

To offset the cost of special policing major crimes or 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.

| Funding Source | Minimum Level | Maximum Level |
|--|---|---|
| <ul style="list-style-type: none"> 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 | 20% of RCMP contract expenditures rounded to the nearest higher \$100,000 |

Road Maintenance & Snow Clearing Reserve Fund

Purpose:

To fund deficits in the Road Maintenance operating budget as result of the cost of the contract for this service. The Reserve aids in minimizing the financial implications resulting from extreme weather events.

| Funding Source | Minimum Level | Maximum Level |
|---|--|--|
| <ul style="list-style-type: none"> Annual allocation from general operating budget as provided for in financial plan | \$200,000 – required to address winter maintenance requirements in the event of a defined “Hard Winter”. | \$400,000 – required to address winter maintenance requirements in the event of a defined “Exceptionally Hard Winter”. |

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"> Savings from the fire operational budget Annual allocation from the fire operational budget as provided for in the financial plan | 5% of fire operational expenditures rounded to the nearest higher \$100,000 | 10% of fire operational expenditures rounded to the nearest higher \$100,000 |

Capital Reserve Funds:

Capital Reserve Fund

Purpose:

To fund general capital projects that are not specifically funded from other established Reserves. Capital projects that will be funded from this reserve are budgeted within the City’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 5 years of the 10 year capital plan | Adequate to fund all capital projects identified as capital funded in the 10 year capital plan |

Capital Renewal Reserve Fund

Purpose:

To provide for expenditures associated with the rehabilitation, renewal or replacement of existing capital infrastructure such as roads, including sidewalks and related infrastructure, and facilities. The Capital Renewal Reserve Fund may be used to assist in meeting the funding requirements of matching programs developed by senior levels of government.

| Funding Source | Minimum Level | Maximum Level |
|---|--|---|
| <ul style="list-style-type: none"> Annual allocation of 15% of assessment growth | Adequate to fund capital projects identified as renewal for the next fiscal year in the 10 year capital plan | Adequate to fund capital projects identified as renewal in the 10 year capital plan |

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 5 years of the 10 year capital plan | Adequate to fund all capital projects identified as sewer capital funded in the 10 year capital plan |

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 5 years of the 10 year capital plan | Adequate to fund all capital projects identified as water capital funded in the 10 year capital plan |

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 distributed by the Union of BC Municipalities | N/A | N/A |

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| (UBCM) | | |
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Equipment Replacement Reserve

Purpose:

Replacement of municipal vehicles and equipment as per policy.

| 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 five upcoming years of vehicle and equipment replacements. | Funds for all scheduled replacements in the 10 year financial plan. |

Municipal Facilities Reserve Fund

Purpose:

To fund the building, replacement or upgrade of municipal facilities, excluding recreation facilities (see the Recreation Reserve Fund). Examples include City Hall, Public Works Yard and Lakeview Hall.

| Funding Source | Minimum Level | Maximum Level |
|---|---------------|---|
| <ul style="list-style-type: none"> Allocation from general operating budget as provided for in the financial plan. | \$0 | Adequate to fund municipal facility projects outlined in the 10 year capital plan |

Property Acquisition Fund

Purpose:

To offset the cost of property acquisition within the City.

| Funding Source | Minimum Level | Maximum Level |
|---|---------------|--|
| <ul style="list-style-type: none"> Annual allocation from general operating budget as provided for in the financial plan | \$0 | Adequate to fund Property Acquisitions as identified in Master plans or Council priorities |

Recreation Reserve Fund

Purpose:

To fund projects as outlined in the Recreation Master Plan or the Recreation Facilities Master Plan. These projects could be new infrastructure or renewal of existing infrastructure. This fund may be used to assist in meeting the funding requirements of matching programs developed by senior levels of government.

| Funding Source | Minimum Level | Maximum Level |
|---|---------------|---|
| <ul style="list-style-type: none"> Annual allocation from general operating budget as provided for in financial plan | \$0 | Adequate to fund recreational projects outlined in the 10 year capital plan |

Storm Drainage Reserve Fund

Purpose:

To fund projects as outlined in the Storm Drainage Master Plan. These projects could be new infrastructure, renewal of existing infrastructure or emergent in nature. This fund may be used to assist in meeting the funding requirements of matching programs developed by senior levels of government.

| Funding Source | Minimum Level | Maximum Level |
|---|---------------|---|
| <ul style="list-style-type: none"> Annual allocation from general operating budget as provided for in financial plan | \$0 | Adequate to fund storm drainage projects outlined in the 10 year capital plan |

Statutory Reserve Funds:

Development Cost Charge (DCC) Reserve Funds

Purpose:

Per subsection 188 (2) (a) of the *Community Charter*, separate Reserves need to be established for DCC collections and use, under section 935 of the *Local Government Act*. The following DCC Reserves have been established for the purpose so identified in the associated DCC bylaws and are as follows:

- Roads DCC
- Drainage DCC
- Parks DCC
- Water DCC

Parkland Acquisition Reserve Fund

Purpose:

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.

Land Sale Reserve Fund

Purpose:

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.

SECTION 2 – UNAPPROPRIATED SURPLUSES

The City 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 City may also require emergency funds from time to time, from any one of its Unappropriated Surplus balances, for unforeseen costs. When this occurs, the City 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 <ul style="list-style-type: none"> • 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 <ul style="list-style-type: none"> • 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 <ul style="list-style-type: none"> • 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 |

SECTION 3 – ADMINISTRATION

3.1 Reserve Contributions

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

3.2 Minimum and Maximum Reserve Balances

Minimum and maximum fund balance guidelines have been set for some of the City’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 that the City’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.

3.3 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.

3.4 Responsibilities

The City's Financial Officer shall be responsible for:

- Recommending the necessary contributions and transfers so that the City's Reserve Funds, Statutory Reserve Funds and Unappropriated Surpluses are maintained in accordance with this Policy
- 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;
- Recommending any 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.

3.5 Interest

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

3.6 Guide and Transition

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

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| Previous Revisions: |
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