

## COUNCIL POLICY

<b>NAME:</b> Reserves and Surplus	
<b>ISSUED:</b> August 11, 2014	<b>INDEX REFERENCE:</b>
<b>AMENDED:</b>	<b>COUNCIL REFERENCE:</b> 14/CNCL

### SECTION 1 - OBJECTIVES AND GUIDING PRINCIPLES

#### 1.1 Objectives

The District's objectives in terms of its reserve funds are set out in this Reserve Funds Policy. By reaching a clear understanding of its reserve fund objectives, and by continually measuring progress towards achieving those objectives, the District can attain greater accountability and fiscal stability. Formal reserve fund objectives demonstrate financial commitment to long range plans for infrastructure replacement. They also provide a systematic methodology to address funding for significant projects that require accumulation of funds over multiple fiscal periods.

#### 1.2 Guiding Principles

The following principles form the basis for this Policy:

- Healthy reserve/surplus levels are important in achieving community goals including financial health and stability;
- Reserve/surplus goals need to be consistent with and supportive of realistic longer term financial plans;
- Reserve Fund Management needs to conform to the statutory/legal requirements of the *Local Government Act* and the *Community Charter*, generally accepted accounting principles (GAAP) and public sector accounting board (PSAB) recommendations.

### SECTION 2 - OPERATING AND CAPITAL RESERVE FUNDS

Pursuant to subsection 188 (1) of the *Community Charter*, Council may, by bylaw, establish a reserve fund for a specified purpose and direct that money be placed to the credit of the reserve fund. The following reserve funds have been established for the purpose(s) so identified:

#### 2.1 Capital Works Reserve Fund (Bylaw 1596 – previously Public Works)

The Capital Works Reserve has been established 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 District's Financial Plan.

#### 2.2 Machinery and Equipment Depreciation Reserve Fund (Bylaw 3541)

The Machinery and Equipment Reserve has been established to replace municipal vehicles, machinery and equipment included in the District's General and Fire fleets and a variety of other departmental equipment.

**2.3 Public Safety and Security Reserve Fund (Bylaw 8612)**

The Public Safety and Security Reserve has been established to fund expenditures related to safety and security (Police).

**2.4 Facilities Reserve Fund (Bylaw 9285)**

The Facilities Reserve has been established to fund expenditures for major repairs, upgrading, replacement or expansion of municipal buildings, ancillary structures and site services. This reserve may be used for early retirement of facilities debt, as funds permit.

**2.5 Information Technology Reserve Fund (Bylaw 9286)**

The Information Technology Reserve has been established for maintaining a regular replacement cycle for District-owned information technology assets and enterprise information system infrastructure, including enhancements to those systems.

**2.6 Sewer Capital Reserve Fund (Bylaw 9288)**

The Sewer Capital Reserve has been established for sewer utility capital projects including regional sewer treatment projects, non-regional sewer conveyance system projects and any capital equipment, systems and facilities required for sewer operations. This reserve may also be used for early retirement of sewer debt, as funds permit.

**2.7 Water Capital Reserve Fund (Bylaw 9289)**

The Water Capital Reserve Fund has been established for water utility capital projects including regional water treatment, conveyance and storage projects, non-regional water distribution system projects and any capital equipment, systems and facilities required for water operations

**2.8 Carbon Neutral Reserve Fund (Bylaw 8890)**

The Carbon Neutral Reserve has been established for funding expenditures solely for the purpose of achieving greenhouse gas reductions from Saanich municipal operations.

**2.9 Commonwealth Pool Operating Trust Fund Reserve (Bylaw 7074)**

The CP Operating Reserve has been established for expenditures related to operating, maintaining and administering the High Performance Centre.

**2.10 Commonwealth Pool High Performance Repair & Replacement Reserve Fund (Bylaw 7449)**

The CP High Performance Reserve has been established to provide funding for the cost of repair or replacement uniquely attributable to the High Performance Centre.

### **2.11 Sayward Gravel Pit Special Reserve Fund (Bylaw 7820)**

The Sayward Gravel Pit Reserve has been established to provide funds to pay the additional Public Works department maintenance, operating and capital costs resulting from the closure of the Sayward Gravel Pit. This is a special purpose fund that will be collapsed when the current balance has been depleted.

### **SECTION 3 - 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 and/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).

Surplus funds in excess of adequate levels as established by this policy may be used as follows:

1. Used to fund one time projects (capital or operating)
2. Transferred to a reserve fund

Council retains the ability to alter the level of surplus or use surplus funds if such an alteration is determined to be in the best interest of the District.

### **SECTION 4 - STATUTORY RESERVE FUNDS**

If monies are received from specific sources, certain reserve funds must be established for administering these funds, as per specific legislation. These reserve funds are termed by the District to be Statutory Reserve Funds, and are as noted below.

#### **4.1 Development Cost Charge (DCC) Reserve Funds (Bylaw 9287)**

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*. Each reserve fund is divided into sub-accounts to manage the revenue collection and expenditure for each of the DCC areas defined in the DCC Bylaw. The following DCC Reserves have been established for the purpose so identified in Development Cost Charges Bylaw No. 7962 and are as follows:

- Development Cost Charges Reserve Fund - Roads
- Development Cost Charges Reserve Fund - Drainage
- Development Cost Charges Reserve Fund - Sewer
- Development Cost Charges Reserve Fund - Water
- Development Cost Charges Reserve Fund - Parkland Acquisition

#### **4.2 Sub-Regional Parks Reserve Fund (Bylaw 6861)**

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 Sub-Regional Parks Reserve has been established for accumulating and expending monies as per this requirement.

#### **4.3 Land Sales Reserve Fund (Bylaw 7204)**

Per subsection 188 (2) (e) of the *Community Charter*, funds received from the sale of land and improvements must be set aside in a reserve and used 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 5 - ADMINISTRATION**

#### **5.1 Reserve Contributions**

Annual and/or periodic contributions to reserve funds shall be specific to each reserve, as approved by council in the District's Financial Plan Bylaw.

#### **5.2 Minimum and Optimal Reserve Balances**

The District will establish minimum and optimal fund balance guidelines for some of the District's operating and capital reserves funds and unappropriated surpluses. Establishing minimum balance guidelines ensures that the respective reserves and surpluses are not depleted to the degree that they are no longer able to serve their intended purpose(s). The optimal 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 review of actual, minimum and optimal fund balances shall be undertaken annually and approved by the Finance, Audit and Personnel Committee.

#### **5.3 Internal Borrowing**

Internal borrowing from specific Reserve Funds, 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. Paybacks shall be executed according to plan.

## 5.4 Responsibilities

The District's Financial Officer shall be responsible for:

- Recommending minimum and optimal fund balances and the necessary contributions and transfers so that the District's Operating/Capital Reserve Funds, Unappropriated Surpluses and Statutory Reserve Funds are maintained in accordance with this Policy;
- Conducting an annual review of all Operating/Capital Reserve Fund, Unappropriated Surplus and Statutory Reserve Fund balances, reporting the results of the review, and recommending changes to the minimum and optimal balance guidelines to the Finance, Administration and Personnel committee;
- Recommending any revisions or amendments to this Policy, as may be required from time to time, as a result of changes in applicable statutes, accounting standards, economic conditions, etc.

## 5.5 Interest

Operating/Capital Reserves Funds and Statutory Reserve Funds shall be paid and allocated actual interest earned in the year based on average monthly balances.

## SECTION 6 – GLOSSARY

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

**(1) "Accumulated Surplus"** means the accumulated excess of revenues over expenditures from prior years which has not been set aside for specific purposes.

**(2) "Annual Surplus"** means the accumulated excess of revenues over expenditures for the current year.

**(3) "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.

**(4) "Reserves"** means all of the District's Reserve Funds and Statutory Reserve Funds.

**(5) "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 nondiscretionary on the part of Council.

**(6) "Unappropriated Surplus"** means the accumulated surpluses built up in the District's various funds that have not been designated for specific uses.