



FINANCE

SURPLUS AND RESERVES

FIN.42



POLICY

Date Policy Adopted: October 5, 2009
Date Policy Amended: December 7, 2009
Date Policy Amended: December 16, 2024

Council Resolution Number: RC09/656
Council Resolution Number: RC09/781
Council Resolution Number: RC24-633

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SECTION 1 - OBJECTIVES AND GUIDING PRINCIPLES

1.1 Objectives

The City's objectives in terms of its various surpluses and reserves are set out in this Surplus and Reserve Policy (Policy). To meet its goal of financial sustainability, the City must maintain adequate balances in Unappropriated Surplus and Reserve accounts to ensure stable tax rates, mitigate current and future risks, and demonstrate financial commitment to long-range infrastructure and master plans. By reaching a clear understanding of its surplus and reserve objectives, and by continually measuring progress towards achieving those objectives, the City can attain greater fiscal stability and prosperity.

1.2 Guiding Principles

The following principles form the basis for this Policy:

- Healthy surplus and reserve levels are important in achieving community goals including financial health and stability.
- Surplus and Reserve goals need to be consistent with, and supportive of, realistic longer-term financial plans.
- Surplus and Reserve appropriations need to conform to the statutory 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 SURPLUS AND RESERVES

2.1 Operating Surplus

The City needs to maintain Unappropriated Surplus balances in its operating funds (General, Drainage, Water, Sewer, and Solid Waste) 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 City may also require funds from time to time, from any one of its Unappropriated Surplus balances, for unforeseen or emergent costs. When this occurs, the City needs to rely upon sufficient balances being available in the applicable Unappropriated Surplus.

2.2 Debt Retirement Reserve

The Debt Retirement Reserve has been established to accumulate funds that can be utilized for early retirement of general debt. The City can take advantage of early long-term debt retirement opportunities if it has sufficient funds available, thereby saving interest costs.

2.3 Insurance Reserve

The Insurance Reserve has been established to offset the cost of insurance claims and deductibles, the magnitude and timing of which is often indeterminable. The City's insurance exposure is, in part, due to the fact that the City maintains higher insurance deductibles and thus self-insures up to a pre-determined dollar amount, so as to reduce annual insurance premiums.

2.4 Legal Reserve

The Legal Reserve has been established to offset the cost of major legal costs and claims, the magnitude and timing of which is often indeterminable.

2.5 Public Safety Reserve

A Public Safety Reserve has been established for special public safety related projects or expenditures. Major public safety expenditures can come forward without any forewarning and it is often not possible to fund these projects via taxation or other reserves.

2.6 Financial Stabilization Reserve

The Financial Stabilization Reserve has been established for the following purposes:

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 subsequent declines in taxation would result; therefore, it is not prudent to fund these projects from on-going property taxation revenue.

To Offset Unrealized Revenues - some of the City's revenue sources, e.g. development fees, building permits, and subdivision inspection fees, are cyclical in nature and thus are subject to downturns in the economy. The City tries to anticipate economic downturns by budgeting for a base dollar amount of these revenues in its general operations. Despite its best efforts, the City is exposed to the possibility of unrealized revenues and/or to declines in base revenues from year to year.

To reserve funds for other purposes not identified elsewhere in the policy – the City may identify a source of revenue not listed elsewhere in this policy that it desires to reserve to be used for a specified purpose at a later time.

2.7 Community Works Gas Tax Reserve

The Community Works Gas Tax Reserve has been established to account for funds received and used pursuant to the Community Works Gas Tax Agreement. Funds in this reserve need to be used for projects allowed for under the Community Works Gas Tax Agreement.

2.8 Gaming Reserve

The Gaming Reserve has been established pursuant to the City's Host Financial Assistance Agreement with the Province to hold and expend gaming revenues as per the Agreement. These funds can be used for any municipal purpose.

2.9 Community Amenity Reserve

The Community Amenity Project Reserve has been established pursuant to Council policy LAN.40 - Financial Contributions for Community Amenities, to accumulate community amenity contributions that will be used to fund those community amenity projects listed within the LAN.40 policy.

2.10 Affordable Housing Reserve

The Affordable Housing Reserve has been established pursuant to Council policy LAN.40 - Financial Contributions for Community Amenities, to accumulate a portion of community amenity contributions that will be used to fund affordable housing projects as identified from time-to-time. Funds may also be received through cash contributions from developer as part of the development approval process.

2.11 General Capital Reserve

The General Capital 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 City's long-term capital plan.

2.12 Roads Capital Reserve

The Roads Capital Reserve has been established for capital roads projects, as the City has a major road network that needs to be renewed on an ongoing basis.

2.13 Information Systems Reserve

The Information Systems Reserve has been established for information system and technology projects including communications systems, which are capital in nature. Technology can change rapidly within the information systems 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.

2.14 Vehicle and Equipment Reserve

The Vehicle and Equipment Reserve has been established to replace the municipal vehicles and equipment included in the City's fleet.

2.15 Major Capital Reserve

The Major Capital Reserve Fund has been established to fund, or partially fund, large construction projects that have been designated as being major corporate project priorities by Council.

2.16 Cemetery Reserve

The Cemetery Reserve Fund has been established to provide funds for expansion of the Cemetery including any land acquisition that may be required. A portion of cemetery fees will be directed to this reserve.

2.17 Solid Waste Reserve

The Solid Waste Reserve has been established for landfill expansion and/or improvement projects, environmental emergencies, as well as specially approved initiatives or projects related to the provision of the solid waste service.

2.18 Drainage Capital Reserves

The Drainage Capital Reserves have been established for drainage utility capital projects. Two reserves have been established:

- Drainage TCA to fund the repair, refurbishment and replacement of existing drainage capital assets
- Drainage Growth to fund the design and construction of new drainage capital assets.

2.19 Forestry Reserves

Three reserves have been established for the forestry fund:

- The Forestry Operating Surplus to offset any operating losses that may occur in any given year within the City's forestry operations. The forest industry can be cyclical in nature, and by setting aside these reserve funds, general taxation (or the taxpayers) is (are) not exposed to operating losses that may occur in the forestry area.

- The Forestry Capital Reserve to fund the repair, refurbishment and replacement of existing forestry capital assets.
- The Forestry Legacy Reserve to set aside funds for new significant capital projects in the City.

2.20 Sewer Capital Reserves

The Sewer Capital Reserves have been established for sewer utility capital projects including regional sewer treatment projects, non-regional sewer conveyance system projects and any capital equipment/systems required for sewer operations. Two reserves have been established:

- Sewer TCA to fund the repair, refurbishment and replacement of existing drainage capital assets
- Sewer Growth to fund the design and construction of new drainage capital assets.

2.21 Water Capital Reserves

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 required for water operations. Two reserves have been established:

- Water TCA to fund the repair, refurbishment and replacement of existing drainage capital assets
- Water Growth to fund the design and construction of new drainage capital assets.

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/budgeting process.

3.2 Minimum and Optimal Reserve Balances

Minimum and optimal fund balance guidelines have been set for some of the City's Operating and Capital Reserves and Surpluses as shown in attached Appendix "A". The purpose and source(s) of funding applicable to each reserve are also shown in this Appendix. 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 optimal 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 periodically.

3.3 Internal Borrowing

Internal borrowing from specific reserves and surpluses shall be permissible as allowed for by legislation, if a clearly defined and attainable payback plan, including payment of foregone interest, is in place, as 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 Operating and Capital Reserves and Surpluses are maintained in accordance with this Policy.
- Conducting a periodic review of all Operating and Capital Reserves and Surplus balances including comparing actual levels with the established minimum and optimal levels within this Policy and with other jurisdiction benchmarks and reporting the results of such a review to council.
- Recommending changes to the minimum and optimal balance guidelines shown in this Policy.
- Recommending any revisions or amendments to this Policy, as may be required from time to time, because of changes such as applicable statutes, accounting standards and economic conditions.

3.5 Interest

Operating and Capital Reserves shall be 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 not all 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.

Schedule A - Surplus and Reserve Summary

Surplus/Reserve	Purpose	Funding Source(s)	Minimum Balance	Optimum Balance
General Fund Operating Surplus	For working capital purposes within the general operating fund and for unforeseen general operating emergency expenditures.	Any excess general operating fund revenues (including property taxes) over expenditures and transfers at the end of each fiscal year.	1 month of budgeted annual operating expenses	2 months of budgeted annual operating expenses
Drainage Fund Operating Surplus	For working capital purposes within the drainage operating fund and for unforeseen water operating emergency expenditures.	Any excess drainage operating fund revenues (including user fees) over expenditures and transfers (including capital transfers) at the end of each fiscal year.	2 months of budgeted annual operating expenses	3 months of budgeted annual operating expenses
Water Fund Operating Surplus	For working capital purposes within the water operating fund and for unforeseen water operating emergency expenditures.	Any excess water operating fund revenues (including user fees) over expenditures and transfers (including capital transfers) at the end of each fiscal year.	2 months of budgeted annual operating expenses	3 months of budgeted annual operating expenses
Sewer Fund Operating Surplus	For working capital purposes within the sewer operating fund and for unforeseen sewer operating emergency expenditures.	Any excess sewer operating fund revenues (including user fees) over expenditures and transfers (including capital transfers) at the end of each fiscal year.	2 months of budgeted annual operating expenses	3 months of budgeted annual operating expenses
Solid Waste Operating Surplus	For working capital purposes within the solid waste operating fund and for unforeseen sewer operating emergency expenditures.	Any excess solid waste operating fund revenues (including user fees) over expenditures and transfers (including capital transfers) at the end of each fiscal year.	2 months of budgeted annual operating expenses	3 months of budgeted annual operating expenses
Debt Retirement	To accumulate funds that can be utilized for early debt retirement.	Budgeted allocations from the General Operating Fund (property taxation), based on savings from retired debt issues.	N/A	N/A
Insurance	To offset the cost of insurance claims and deductibles.	Annual budgeted allocations from general operating fund (property taxation), sewer operating fund, water operating fund, equipment operations, refuse operations and forestry operations. Plus unspent funds budgeted for claims expenses	2 x Claims budget	3 x claims budget
Legal	To offset the cost of major legal costs/claims.	Annual budgeted allocations from general operating fund (property taxation), sewer operating fund, water operating fund, equipment operations, refuse operations and forestry operations.	1 x the annual legal expense budget	2 x the annual legal expense budget
Public Safety	For special public safety related projects or expenditures.	Budget savings from policing and fire operations as available without requiring an appropriation from the general fund accumulated surplus.	5% of RCMP and Fire Hall #1 Operating Expenses	10% of RCMP and Fire Hall #1 Operating Expenses

Schedule A - Surplus and Reserve Summary

Surplus/Reserve	Purpose	Funding Source(s)	Minimum Balance	Optimum Balance
Financial Stabilization	For one-time and intermittent projects, to offset unrealized revenues and to reserve funds for specific purposes not identified elsewhere.	Annual allocation from general operating budget as provided for in financial plan. Excess revenue received from specific operating activities.	N/A	N/A
Community Works Gas Tax	To be used pursuant to the Community Works Gas Tax Agreement.	Federal Community Works Gas Tax funds distributed by the Union of BC Municipalities (UBCM).	N/A	N/A
Gaming	Any municipal purpose pursuant to the District's Host Financial Assistance Agreement with the Province of BC.	Gaming funds received pursuant to the City's Host Financial Assistance Agreement with the Province of BC.	N/A	N/A
Community Amenity	To accumulate a portion of the community amenity contributions for approved projects in accordance with policy LAN. 40	A portion of volunteered developer contributions from residential re- zoning.	N/A	N/A
Affordable Housing	To support affordable housing initiatives in the City.	A portion of volunteered developer contributions from residential re- zoning. Cash contributions received -through other development activities designated for affordable housing.	N/A	N/A
General Capital	To fund the repair, refurbishment or replacement of existing general capital assets and other general fund projects not specifically funded from other established reserves.	Annual budgeted allocation from General Operating Fund (property taxation)	Equivalent to 3 years of amortization expense of General Fund TCAs	Equivalent to 5 years of amortization expense of General Fund TCAs
Roads Capital	For roads capital and replacement projects.	Allocations from net soil removal revenues/expenses and \$5.00 per tonne of refuse disposed of at the landfill site.	Equivalent to 3 years of amortization expense of Road TCAs	Equivalent to 5 years of amortization expense of Road TCAs
Information Systems	For information systems and technology projects.	Annual budgeted allocations from general operating fund (property taxation), and sewer, water, equipment, refuse and forestry operations.	Equivalent to 2 years of amortization expense of IT TCAs	Equivalent to 3 years of amortization expense of IT TCAs
Vehicle and Equipment	To replace municipal vehicles and equipment included in the District's fleet.	Net of vehicle & equipment charges recovered from various departments (usage rates) and vehicle/equipment operating expenditures 2 Proceeds from the sale of fleet vehicles and equipment	Equivalent to 2 years of amortization expense of Vehicle and Equipment TCAs	Equivalent to 3 years of amortization expense of Vehicle and Equipment TCAs

Schedule A - Surplus and Reserve Summary

Surplus/Reserve	Purpose	Funding Source(s)	Minimum Balance	Optimum Balance
Major Capital	To fund the design and construction of new general fund capital assets	Annual budgeted allocations from General Operating Fund (property taxation).	N/A	N/A
Cemetery	For cemetery expansion including any land acquisition	A portion of cemetery fees.	N/A	N/A
Solid Waste	For landfill expansion and/or improvement projects, environmental emergencies, as well as specially approved initiatives or projects	Net of revenues, expenditures/transfers in refuse area operations.	Equivalent to 3 years of Depreciation Expense of Solid Waste TCAs	Equivalent to 5 years of Depreciation Expense of Solid Waste TCAs
Drainage Capital				
Drainage TCA	To fund the repair, refurbishment and replacement of existing drainage capital assets	Annual budgeted allocation from Drainage Operating Fund (property taxation)	Equivalent to 3 years of amortization expense of Drainage TCAs	Equivalent to 5 years of amortization expense of Drainage TCAs
Drainage Growth	To fund the design and construction of new drainage capital assets	Drainage operating revenue once the Drainage TCA reserve has reached an optimum level	N/A	N/A
Forestry				
Forestry Operating surplus	To offset any operating losses that may occur in any given year within the District's forestry operations and/or for Forestry equipment purchases.	Any annual profit from forestry operations, over and above approved transfers to other reserves.	1/12 of annual operations plus \$500,000	2/12 of annual operations plus \$1,000,000
Forestry Capital Reserve	To fund the repair, refurbishment and replacement of existing forestry capital assets	Any annual profit from forestry operations, over and above approved transfers to other reserves.	Equivalent to 2 years of amortization expense of Forestry TCAs	Equivalent to 3 years of amortization expense of Forestry TCAs
Forestry Legacy Reserve	To fund new significant capital projects in the City	Any annual profit from forestry operations once the Operating Surplus Reserve and the Capital Reserve have reach the optimum level	N/A	N/A
Sewer Capital				
Sewer TCA	For the repair, refurbishment or repair of existing Sewer Utility capital assets, regional sewer treatment capital assets and any sewer equipment that is not part of the fleet,	Net revenue/expense transfer available from sewer operations less any budgeted amounts transferred to sewer operating surplus and/or other reserves.	Equivalent to 3 years of amortization expense of Sewer TCAs plus \$5 million for emergencies	Equivalent to 5 years of amortization expense of Sewer TCAs plus \$5 million for emergencies

Schedule A - Surplus and Reserve Summary

Surplus/Reserve	Purpose	Funding Source(s)	Minimum Balance	Optimum Balance
Sewer Growth	For the design and construction of Sewer Utility capital assets, regional sewer treatment capital assets and any sewer equipment that is not part of the fleet,	Net revenue/expense transfer available from sewer operations less any budgeted amounts transferred to sewer operating surplus and/or other reserves.	N/A	N/A
Water Capital				
Water TCA	For the repair, refurbishment or repair of existing water utility capital assets, regional water treatment capital assets and any water equipment that is not part of the fleet,	Net revenue/expense transfer available from water operations less any budgeted amounts transferred to water operating surplus and/or other reserves.	Equivalent to 3 years of amortization expense of Water TCAs plus \$5 million for emergencies	Equivalent to 5 years of amortization expense of Water TCAs plus \$5 million for emergencies
Water Growth	For the design and construction of water utility capital assets, regional water treatment capital assets and any water equipment that is not part of the fleet,	Net revenue/expense transfer available from water operations less any budgeted amounts transferred to water operating surplus and/or other reserves.	N/A	N/A