



# City of Leduc Policy

**Policy Title: Reserve Policy**

**Policy No:** 12.02:3

**Supersedes:** Previous Policy No. 12.02:3 effective October 10, 1995

**Revision #:** 2

<b>Council Authority: Council</b>
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<b>Relevant Legislation: Municipal Government Act</b>
<b>Relevant Council Date of Resolution(s):</b>
<b>Relevant Bylaw and Date(s):</b>
<b>Authority's Signature:</b>

## Policy Objective

The purpose of this policy is to provide guidelines for the establishment and management of City of Leduc ("City") reserves, as well as the transfers to and from these reserves. The reserves are necessary to provide funding for the City's current and future capital and operating budget requirements, while providing stabilization for fluctuations in operating and capital activities. The policy will also ensure that all reserve transactions are approved by Council.

## Policy Statement

The City of Leduc strives to sustain a financially viable municipality that provides an adequate level of municipal services and supports the City's long-term capital plan. The reserve policy is intended to achieve these goals by enhancing the City's financial strength, flexibility, cash flow management and ability to achieve Council's vision and Strategic Plan.

The City is committed to the principles of the Long Term Fiscal Sustainability Plan and working within its framework.

Reserve transactions will support and adhere to the Municipal Government Act ("MGA") or other legal requirements and the principles below.

## Principles

1. In compliance with this policy and the MGA, the establishment, amendment and closure of all reserve accounts, as well as the transfers to and from these accounts require Council approval.
2. Corporate risk will be mitigated through the effective management of City reserves.
3. Reserve balances will be reviewed through the Reserve Model on an annual basis as part of the budget process. The Reserve Model is a financial model that utilizes annual

budgeted values, not including committed funds, to determine the optimal balance required for each reserve. At the completion of each annual review, recommendations will be made to Council regarding any adjustments that are required to maintain acceptable balances in all reserves.

4. Administration will perform a detailed review of the reserves at a minimum of every four years to align with Council turnover.
5. Each internally restricted reserve will have an established optimal or target value. In the event of a balance that is below the optimal value, a strategy could be adopted to achieve the optimal level over a reasonable period. The strategy may include, but is not limited to:
  - a. Replenishing the reserve with any unplanned one-time revenues;
  - b. Utilizing previously committed one-time contingent funds or appropriated items that are no longer required for their original purpose; or
  - c. Adjusting the annual budgeted reserve contributions.

The requirement to bring the reserve balance to the optimal level is subject to Council's discretion.

6. Once a reserve has reached its optimal value, annual budget contributions will cease until such time the reserve balance falls below the target level and requires replenishment.
7. In order to be sustainable, each reserve must identify a funding source, either from internal or external sources, including but not limited to:
  - a. Approved budget contributions;
  - b. Allocation of year end actual surplus;
  - c. Donations;
  - d. Interest earned on reserve funds;
  - e. Government grants; and
  - f. One-time transfers approved by Council.

## Definitions

- i. *Capital reserve* – An internally restricted balance designated to fund expenditures that are capital in nature.
- ii. *Committed balance* – Funds approved by Council to be applied towards specific expenditures.
- iii. *Offsite levies* – Funds levied from developer agreements on new land developments and subdivisions, which is restricted for projects required due to growth.
- iv. *Operating budget surplus* – The excess of revenues over expenditures as compared to the annual operating budget approved by Council, net of budget carryover items.
- v. *Operating expenses* – Total budgeted operating expenses, excluding amortization and inter-divisional transfers.

- vi. *Operating reserve* – An internally restricted balance designated to stabilize the City's operating financial requirements.
- vii. *Reserve model* – A financial model that takes annual reserve contributions and uses into consideration to determine the optimal funding level of each reserve that is required to support the City's long-term capital plan.
- viii. *Restricted reserve* – Funds that are targeted for a specific purpose, project or department, or has limitations as to where the funds may be used.
- ix. *Unrestricted reserve* – Funds that are available for use for any operating requirement that is compliant with the Alberta MGA.

## **Operating Reserve**

The operating reserve provides sustainable operating funds to ensure the City can provide adequate levels of municipal services during unplanned and unforeseen events or conditions. They help to smooth the impact of financial changes on taxpayers and service users and can be set aside for specific future liabilities.

1. An operating reserve is an internally restricted balance set aside to stabilize the City's finances by providing an allowance for unexpected events, significant losses of income, and large unbudgeted expenses.
2. The operating reserve must have an optimal balance of 8% of budgeted operating expenses, not including amortization and inter-divisional transfers. This amount is equivalent to approximately one month of operating expenses.
3. Any annual operating budget surplus will be allocated according to the following guideline:
  - a. Fifty percent (50%) of the annual surplus will be placed in the operating reserve with the remaining 50% to be allocated to the Pay As You Go-capital reserve as required.

## **Capital Reserves**

Capital reserves are internally restricted amounts established to fund expenditures of a capital nature, including the replacement and upgrading of existing assets or the construction of new assets and infrastructure. These reserves are used to support the City's long-term capital planning.

In support of the overall financial health of the City, a reserve will be created for the replacement of existing infrastructure and construction or purchase of new infrastructure for each of the following categories:

1. Pay as you go - capital
2. Environmental and Waste
3. Water
4. Wastewater and Storm

Each reserve will be supported by a ten-year projection of additions and uses of monies. These projections will be updated annually as part of the budget process. Detailed information for the above capital reserves is available in Schedule A.

### **Restricted Reserves**

These reserves are externally restricted through the MGA and include the following:

1. Cash in Lieu
2. Recreation Levy
3. Developer Contribution
4. High Precision Network Monument Reserve

They also include reserves that are held by the City on behalf of third party organizations and include the following:

1. Downtown Business Association
2. Library Equipment
3. Reserve for Lede Room
4. Reserve for Library Bequest
5. Reserve for LATS Bequest

### **Offsite Levies Reserves**

Offsite levies reserves are funds that are externally restricted through the MGA. These funds are levied from developer agreements on new land developments and subdivisions, which in turn fund projects that are stimulated by this growth. These reserves fund new or enhanced assets and infrastructure, which are required to facilitate municipal growth and assist in alleviating the burden on existing City infrastructure.

Offsite levies reserves include the following:

1. Water Offsite Levies
2. Sanitary Sewer Offsite Levies
3. Transportation Offsite Levies
4. Fire Offsite Levies

**SCHEDULE A**

**City of Leduc Financial Reserves**

*Operating Reserves*

<b>Operating Reserve</b>	
Purpose:	To provide funds for one-time expenditures of an operating nature; to subsidize unexpected or emergency expenditures; to smooth the impact of financial changes; and to assist in funding future specific liabilities.
Source of Funding:	a) Annual budgeted transfers as approved by Council b) Allocation of annual operating budget surplus as approved by Council c) Other sources as approved by Council
Optimal Balance:	One month or 8% of the budgeted municipal operating expenses (not including amortization).

*Capital Reserves*

<b>Reserve Name</b>	<b>Purpose of Reserve</b>	<b>Sources of Funding</b>
Pay as you go – capital	To provide funds for general capital projects as approved by Council.	a) Annual budgeted transfers as approved by Council b) Other sources as approved by Council
Environmental and Waste Reserve	To provide funds for environmental and waste minimization initiatives.	a) Annual budgeted transfers as approved by Council b) Other sources as approved by Council
Water Reserve	To provide funds for the replacement and improvement of water infrastructure.	a) Annual budgeted transfers as approved by Council b) Other sources as approved by Council
Wastewater and Storm Reserve	To provide funds for the replacement and improvement of storm and sewer infrastructure.	a) Annual budgeted transfers as approved by Council b) 75% of storm drainage user fees c) Other sources as approved by Council

*Legislated and Contractual Reserves*

The following legislated and contractual reserves do not have an established optimal balance.

<b>Reserve Name</b>	<b>Purpose of Reserve</b>	<b>Sources of Funding</b>
Cash in Lieu Reserve	To provide funds for the purchase of municipal reserve space for parks, schools and other municipal requirements.	a) Payments of cash in lieu of municipal reserves
Recreation Levy Reserve	To provide funds for City-wide recreation needs.	a) Annual transfers of developer recreation levy
Developer Contribution Reserve	To provide funds for specific capital projects.	a) Payments received from developers for capital works paid by the City
High Precision Network Monument Reserve	To set aside funds collected from developers to fund the replacement of high precision network monuments.	a) Payments received from developers

*Reserves Held by the City of Leduc*

The following reserves are held by the City of Leduc on behalf of third parties and do not have an established optimal balance.

<b>Reserve Name</b>	<b>Purpose of Reserve</b>	<b>Sources of Funding</b>
Downtown Business Association Reserve	To hold funds for capital projects for the Downtown Business Association.	a) Annual budgeted transfers
Reserve for Library Equipment	To hold funds for the purchase of library equipment.	a) Annual budgeted transfers of Library revenue
Reserve for Lede Room	To hold funds for the purchase of equipment required for the Lede room.	a) Donation
Reserve for Library Bequest	To hold funds for capital improvements to the children's area of the Library.	a) Bequest from estate
Reserve for LATS Bequest	To hold funds for the purchase of future assisted transit buses.	a) Bequest from estate

*Offsite Levies Reserves*

The following offsite levies reserves do not have an established optimal balance.

<b>Reserve Name</b>	<b>Purpose of Reserve</b>	<b>Sources of Funding</b>
Water Offsite Levies Reserve	To provide funds for water-related capital replacements and improvements for offsite levies capital projects.	a) Offsite levies collected from developers through Bylaw
Sanitary Sewer Offsite Levies Reserve	To provide funds for sanitary sewer-related capital replacements and improvements for offsite levies capital projects.	a) Offsite levies collected from developers through Bylaw
Transportation Offsite Levies Reserve	To provide funds for roads and related capital replacements and improvements for offsite levies capital projects.	a) Offsite levies collected from developers through Bylaw
Fire Offsite Levies	To provide funds for future Fire Hall capital replacements and improvements for offsite levies capital projects.	a) Offsite levies collected from developers through Bylaw