
MEETING TYPE: Regular Council Meeting
MEETING DATE: Tuesday, April 19, 2022
AUTHOR: Trevor James
DEPARTMENT: Finance and Administration
ITEM TITLE: 2021 Surplus Allocation
DESCRIPTION: Allocation of Surplus & COVID-19 Grant Expenses

QUESTION

Does the allocation of the 2021 surplus respect the adopted Reserve Fund Policy and provide for the financial wellbeing of the District? Is the use of the COVID-19 Grant in 2021 appropriate?

OPTIONS

- A. THAT the 2021 general fund surplus of \$19,141 be allocated to the general fund surplus reserve;
AND THAT the 2021 water fund surplus of \$4,715 be transferred to the water capital reserve;
AND THAT the 2021 sewer fund surplus of \$16,724 be transferred to the sewer capital reserve;
AND FURTHER THAT the following eligible COVID-19 Safe Restart Grant costs incurred of \$840,938 be approved:
- a. Computer and technology costs to improve connectivity and virtual communications \$486,100
 - b. Revenue shortfalls \$200,910
 - c. General government services \$28,012
 - d. Protective services \$39,798
 - e. Parks and recreation services \$86,118
- B. THAT Council determine the allocation of surplus and approve as amended.

EXECUTIVE SUMMARY

KEY INFORMATION

Council adopted Reserve Fund Policy 195, 2022 on January 4, 2022 (attachment 2). The policy outlines the purpose of each reserve as well as targeted minimums and maximums.

Upon conclusion of the 2021 year end work, surpluses of \$19,141 have been recognized in the general fund, \$4,715 in the water fund and \$16,724 in the sewer fund.

In November 2020, the Province provided the District with \$2,947,000 in COVID-19 Safe Restart Grant funding. The use of those funds is restricted to specific eligible costs. \$424,752 of eligible costs were incurred in 2020. Staff reviewed 2021 and determined that \$840,938 in eligible costs were incurred.

The reserve fund policy was adopted by Council to achieve financial health and stability for the District. The COVID-19 pandemic provided an example of why the reserve fund policy is crucial and necessary. The pandemic created unprecedented financial conditions which resulted in financial supports from the Province. However, there was need for the District to ensure adequate was available, and there was due to the amount of reserve funds being held. There was also need for the District to have funds available to support community interests, over and above the financial supports from the Province.

DESIRED BENEFIT

With adequate reserves, not only can the District weather difficult financial times but Council can also fulfill its vision and mandates for the community.

STRATEGIC RELEVANCE AND COMMUNITY SUSTAINABILITY

Financial sustainability ensures the continuity of the District and the priorities of Council, despite the economic conditions that may be experienced.

The COVID-19 Safe Restart Grant funds are to assist the District in revenue shortfalls or additional expenditures which otherwise would have been covered by taxpayers through use of reserves or surplus funds.

REQUISITES

None.

UNINTENDED OUTCOMES

Regardless of where the surplus is allocated, there will be benefit to the District in ensuring financial stability and continuity. Therefore, there are no unintended outcomes.

The use of the grant funds is restricted by the Province, and if not used appropriately, could be required to be returned.

BACKGROUND/HISTORY

Staff have completed the 2021 year end work and are currently finalizing the 2021 financial statements. The financial statements will be presented to council at the May 10, 2022 Council Meeting. As part of the financial statements for the 2021 year end, a statement of the use of the COVID-19 Safe Restart Grant is required to be reported. The format was provided by our external auditors and was approved by the Province as appropriate.

In January 2022, Council adopted Reserve Fund Policy 195, 2022. As part of that reserve fund policy, a number of reserves and surpluses were listed including their purpose as well as targeted maximum and minimums. Funding for those reserves and surpluses comes from a number of sources including an allocation from year end surplus and budget allocations.

With the completion of the year end work, staff has calculated the year end surplus in each of the general, water and sewer funds. The balances are calculated after all budgeted transfers to and from reserves that were part of the approved 2021 Financial Plan. Prior to the completion of the financial statements, decisions must be made on allocations of those surpluses if any.

General Fund - \$19,141 Surplus

There is a \$19,141 surplus for 2021 in the general fund. This minor surplus existed despite a \$922,068 bad debt expense as a result of a 2020 building permit receivable becoming uncollectable as the permit was never picked up and the property was sold. The purchased property is in the process of receiving a new building permit which should result in significant additional revenue in the 2022 fiscal year. The year ended in a small surplus despite the bad debt expense largely as a result of a \$458,125 positive variance in 2021 building permits over budget, a \$149,791 positive variance in net transit expenses (\$239,967 less \$90,176 transferred to the newly formed transit reserve), and a \$83,522 positive variance in land use revenue over budget.

Water Fund - \$4,715 Surplus

The water fund had a minor surplus of \$4,715 for 2021. Usage was up over 2022 resulting in many revenue and expense lines going over budget, in addition to increased materials costs/rising prices/inflation, the net effect however was a small surplus

Sewer Fund - \$16,724 surplus

The sewer fund had a minor surplus of \$16,724. There were additional parcel taxes from new homes and additional revenues recovered from the RDCO for the septage facility both above budget, partially offset by additional costs from rising materials costs/prices/inflation.

2021 Reserve Balances

The table relating to reserves and minimum and maximum recommended balances that were presented with the reserve policy (Attachment 1) has been updated to reflect 2021 amounts and figures. The policy lays out that while not all reserves are meeting the minimum balances, the policy serves as a guide in moving the District towards the goals or targets it wishes to attain (Section 5.6, Attachment 2).

There are some important points to note in this table:

1. The general fund surplus is below the minimum level which is why option A has this year's surplus being allocated to this fund. The surplus is critical to ensure financial stability of the District and is relied upon in the event of emergencies. This surplus is what protects the District from cash flow issues or if a deficit is created due to revenues not being collected.
2. Water surplus is exceeding the maximum recommended balance. The addition of interest annually to this reserve has pushed the balance over the maximum recommended. There are significant water related projects planned for the upcoming years and as such there will be planned expenditures to ensure this reserve stays within the maximum recommended balance.
3. Sewer surplus is not meeting the minimum recommended balance. This will be partially addressed through the update of the "Sanitary Sewer Regulation and Rate Bylaw 1176, 2022" which has a revised billing and charges section that allows for user fees to be recovered as part of utility billing and includes an excessive wastewater discharge fee.
4. The financial stabilization reserve is exceeding the recommended balance due to the receipt of the COVID-19 Safe Restart Grant from the Provincial Government which was placed in this reserve. Consideration of the use of these funds is included in this report.
5. The policing reserve is currently above its maximum limit. This is considered appropriate due to the following circumstances: the retroactive payment from 2017 to current from the ratified RCMP collective agreement and the shift from funding responsibility from 70% to 90% as a result of hitting a population of 15,000 will bring significant costs.
6. Solid waste reserve fund is still exceeding the maximum recommended balance. This allows flexibility in maintaining current rates even with increasing costs.
7. Other reserves not currently meeting the minimum balances include the fire operations reserve and the insurance and legal fund reserve. These are not critical for financial stability and therefore are recommended to be funded once the general surplus is meeting its minimum balance.

COVID-19 Safe Restart Grant

In November 2020, the District received a \$2,947,000 grant from the Province to assist with the cost of the COVID-19 pandemic for local governments.

A prescribed list of eligible costs was provided with the grant and reporting was required in conjunction with the 2020 and 2021 financial statements.

Staff reviewed all expenditures and foregone revenue as a result of the pandemic and determined the following eligible costs were incurred:

COVID-19 Safe Restart Grant received November 2020	\$2,947,000
2020 eligible costs incurred	<u>424,752</u>
Balance, December 31, 2020	\$2,522,248
2021 eligible costs incurred:	
Computer and technology costs to improve connectivity and virtual communications	\$486,100
Revenue shortfalls	200,910
General government services	28,012
Protective services	39,798
Parks and Recreation Services	86,118
Total 2021 eligible costs incurred	<u>\$840,938</u>
Balance, December 31, 2021	<u>\$1,681,310</u>

- Significant costs were incurred to not only allow staff to work from home but also allow Council meetings to be broadcasted publicly. Previously, Shaw had broadcast Council Meetings on their cable network. When the pandemic began, Shaw no longer recorded the meetings and the District needed to be able to get the meetings virtual. A considerable amount was spent integrating live streaming equipment, integrating telephone systems and improving sound systems. The District is also in the midst of implementing a new accounting system and organization wide Enterprise Resource Planning system which helps the District maintain and access data digitally for internal use as well as for providing an enhanced external experience for citizens both reducing the need for in person contact which provides a safer environment when it comes to the pandemic. Additionally, laptops, portable equipment and remote access was required to allow staff to work from home.
- The District incurred revenue shortfalls in the arena, parks, transit, theatre, and recreation. The shortfalls were calculated using budgeted amounts vs. actual amounts in 2020 & 2021. Where possible, offsets in decreased expenditures were included such as theatre and recreation where there were savings when programming did not occur. There were some fixed costs that could not be recovered where the grant is being applied.
- The costs in the general government services were related mostly to safety supplies and materials. This included personal protective equipment (PPE) such as masks but also cleaning supplies such as antibacterial wipes etc. There were also plastic/glass partitions installed in certain areas for COVID safety reasons.
- Protective service costs were related to PPE for masks, shields, gowns, gloves etc.
- Parks and recreation services costs were not only for the physical changes to the facilities required such as signs and plexiglass dividers but also additional cleaning costs in facilities and portable washroom rentals in parks. Portable washrooms were placed earlier than normal and left later in the season. Due to the large number of residents getting out and enjoying the outdoors, there was also additional maintenance and emptying of the portable washroom as well.

The balance of the grant at December 31, 2021, was \$1,681,310 however there is \$781,095 of carried forward capital projects to be drawn from that amount in 2022. During budget deliberations for the 2022 budget Council approved \$296,370 of operating supplemental items to be funded from one time funding from this reserve. This leaves \$603,845 available. There are no time limits on spending these funds however the Province has indicated preference for funds to be used prior to the end of 2022. The District plans on holding these funds during 2022 to provide for relief from some of the lost revenues and additional expenses that are still occurring due to the pandemic, as well as maintain flexibility should another/multiple wave(s) of COVID-19 result in further shutdowns. If at the end of 2022 we are reasonably confident that there will no longer be an impact from the pandemic in 2023 consideration for the remaining funds can occur during the 2023 budget process.

DISCUSSION/ANALYSIS

APPLICABLE LEGISLATION AND POLICIES

Reserve Fund Policy 195, 2022 – Attachment 2

This policy was originally implemented through Reserve Fund Policy 149, 2016 and was updated with the new policy in early 2022.

IMPACT ON INFRASTRUCTURE OR MUNICIPAL SERVICES

As capital and operating projects are funded from reserves, managing reserves to ensure master plans can be completed is important, having reserves in the event of negative economic events is crucial for cash flow to delivery services to the community.

IMPACT ON STAFF CAPACITY AND FINANCIAL RESOURCES

Following reserve policy helps ensure necessary funding is in place for appropriate staffing and cash flow to provide services even in the event of economic downturns.

COMMENTS FROM EXTERNAL AGENCIES, COMMITTEES AND STAKEHOLDERS

None

CONSULTATION AND COMMUNICATION

Not applicable

ANALYSIS OF OPTIONS FOR CONSIDERATION

The first option provided for Council is aligned with the recommendations of the policy that was previously adopted by council. The second option allows for flexibility if Council chooses to reallocate funding elsewhere. Some of the reserves are more flexible and allow Council to reallocate funds by resolution. Other reserves are more stringent, and the use of the funds is set out in legislation.

Respectfully Submitted,

Trevor James, CPA, CA

Chief Financial Officer

This report has been prepared on consultation with the following:

(author to request inclusion of initials to show concurrence)

Tanya Garost, Chief Administrative Officer	TG
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Attachments

1	Recommended minimum and maximum balances for 2022
2	Reserve Fund Policy 195, 2022

Attachment 1 – Recommended Minimum and Maximum Balances for 2022

	Balance December 31, 2020	Expected Balance, December 31, 2021	Minimum Recommended Balance	Maximum Recommended Balance
		*Includes 2021 budgeted transfers to reserve		Budgeted 2022 Numbers
Non Statutory Reserves				
Financial stabilization reserve	\$ 3,107,673	\$ 2,261,880	\$ 300,000	\$ 700,000
Policing reserve	1,194,986	1,653,429	300,000	1,300,000
Solid waste reserve	541,388	666,222	60,000	300,000
Fire operations reserve fund			200,000	500,000
Insurance and legal reserve fund			10,000	50,000
General capital works	3,056,838	2,470,748	973,000	5,921,000
Climate action reserve	1,623,674	1,910,463	N/A	N/A
Transportation reserve	1,029,512	1,524,756	1,508,000	7,888,000
Equipment acquisition and replacement reserve	386,688	484,711	300,000	2,435,000
Fire facilities and equipment reserve	1,472,758	905,925	201,000	1,279,000
Information Technology reserve	424,046	607,600	154,000	1,015,000
Facilities reserve	385,322	568,545	320,000	2,191,000
Community works gas tax reserve	1,606,995	1,258,531	N/A	N/A
Water capital works	4,922,432	4,849,256	3,948,000	11,213,000
Sewer capital works	654,548	486,583	425,000	1,852,000
Road maintenance services reserve fund			100,000	100,000
Transit reserve		90,176	45,000	91,000
Future capital expenditures reserve	974,657	974,657	N/A	N/A
Future servicing works	1,961,222	496,895	N/A	N/A
	\$ 23,342,739	\$ 21,210,377	\$ 8,844,000	\$ 36,835,000
General fund surplus	\$ 3,614,439	\$ 3,153,488	\$ 4,400,000	\$ 6,500,000
Water fund surplus	1,177,366	1,200,677	800,000	1,200,000
Sewer fund surplus	451,443	460,382	500,000	700,000
	\$ 5,243,248	\$ 4,814,547	\$ 5,700,000	\$ 8,400,000
	\$ 28,585,987	\$ 26,024,924	\$ 14,544,000	\$ 45,235,000
Statutory Reserves				
Access to body of water reserve	2,003	2,043	N/A	N/A
Land sale reserve	10,632	10,843	N/A	N/A
Parkland acquisition reserve	189,995	193,757	N/A	N/A
	\$ 202,630	\$ 206,643	\$ -	
DCC Reserve Fund	\$ 8,164,050	\$ 3,842,210	N/A	N/A

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)

(m) 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.

Mayor

Corporate Officer