



<b>Financial Reserves Policy</b>	Date: <b>April 21, 2021</b>	Resolution No. <b>HMC-21-048</b>
----------------------------------	--------------------------------	-------------------------------------

**POLICY STATEMENT:**

The Summer Village of Half Moon Bay (HMB) recognizes the need to establish reserve funds to ensure the long-term financial stability and viability of the municipality. A combination of operating and capital reserves position HMB to respond to varying economic conditions that may affect HMB’s financial position.

Reserve funds allow HMB Council and Administration to govern in a manner that maintains the financial integrity of the municipality while continuing to provide services for the benefit of residents. Reserve funds also reduce the municipalities dependence on grants from other levels of government or external sources.

Reserve funds will be maintained to assure the municipality’s ability to replace and rehabilitate major capital assets as required, supply funds for new capital assets identified as strategic priorities and provide a buffer for unanticipated expenditures beyond the municipality’s control.

**PURPOSE:**

The purpose of this policy is to maintain consistent standards and guidelines for the management of reserves and execution of reserve transactions, and to ensure that all reserve transactions are approved by Council and carried out in accordance with Council’s approval.

**DEFINITIONS:**

“Amortization” means a non-cash expense to operations representing a portion of the useful life of a recorded tangible capital asset (TCA).

“Capital Reserves” means the portion of unrestricted net assets that Council has designated (or ‘Restricted’) to acquire or construct new Capital assets and replace and rehabilitate major Capital infrastructure as required.

“Operating Reserves” means the portion of unrestricted net assets that Council has designated (or ‘Restricted’) for use in:

- a. Emergencies to sustain financial operations for a reasonable period in the event of significant and unanticipated, unbudgeted increases and/or losses in operating revenues;

- b. Funding budgeted contingencies for non-emergent but unpredictable revenues, volatile expenditures and unanticipated opportunities or challenges; and/or
- c. Funding for the mitigation of tax rate increases.

“Restricted” means a reserve (Operating or Capital) of money that can only be used for specific purposes.

**RESPONSIBILITIES:**

The Chief Administrative Officer is responsible for the overall enforcement of this policy.

**STANDARDS:**

1. All reserve transfers must be approved by Council. Approvals may be in the form of:
  - a. The annual Operating or Capital budget approval;
  - b. A carryover project that was contained in an approved Operating or Capital budget;
  - c. A Council resolution.
2. Draws from Reserves must not exceed the fund balance.
3. Reserve Funds will be reviewed on an annual basis.
4. All Operating and Capital Reserve funds must be fully described and include a purpose, source of funding, minimum level, and target level.
5. Under direction of Council, the Chief Administrative Officer or their designate will ensure funds are invested according to the guidelines set out in HMB’s Investment Policy and in accordance with provincial legislation.
6. Interest will be paid to all reserve funds based on the average balance, calculated as the opening plus closing balances divided by two, at the annual average rate of return on long and short-term investments.

## Schedule A - Financial Reserves Policy

<b>Fund</b>	<b>Purpose</b>	<b>Funding Source(s)</b>	<b>Target Level (\$)</b>
General Municipal Operating	To provide funds for unanticipated operating expenses, emergencies, or revenue shortfall in the course of providing municipal services.	Transfers from annual operating surpluses (Excluding utilities) and one-time unbudgeted sources of revenue.	100% of annual Operating Expenditures including ASFF. (If Utilities Stabilization Fund created Utility expenses could be excluded)
Mill Rate Stabilization	To mitigate or moderate tax rate increases in cases of an emergent, non-recurring nature.	Transfers from annual operating surpluses (Excluding utilities)	15% of annual budgeted municipal property taxes.
Wastewater	To fund capital projects related to Wastewater.	Transfers from annual operating budget and one time transfers to boost reserve levels.	What is the appropriate percentage of total project costs?
Roads	To fund capital projects related to Roads.	Transfers from annual operating budget and one time transfers to boost reserve levels.	50% of total forecast replacement costs
Fleet Replacement	To fund replacement of Fleet vehicles and equipment	Transfers from annual operating budget.	15,000
JSC – Information Technology	To fund capital projects or equipment replacements	Transfers from annual operating surpluses (Excluding utilities)	5,000
Environmental	To fund operating and capital projects	Transfers from annual operating surpluses (Excluding utilities)	1,000

## Schedule B - Future Options to Consider

Fund	Purpose	Funding Source(s)	Target Level (\$)
Wastewater Operating Expense	To provide funds for unanticipated operating expenses, emergencies, or revenue shortfall in the course of providing the municipal service.	Transfers from annual utilities operating surpluses	25% of annual Operating expenditures related to wastewater.
Utilities Stabilization Fund	To mitigate utility rates and provide funding for unanticipated operating expenditures related to providing water, wastewater, and solid waste services.	Transfers from annual utilities operating surpluses	25% of annual Operating expenditures related to water, wastewater, and solid waste operations.
Utilities Capital Reserve	To fund capital projects related to water, wastewater, stormwater, and solid waste infrastructure	Transfers from annual utilities operating or Amortization of current assets, or one time transfers to boost reserve levels.	What percentage of replacement cost should the target be set at? Will grants or debt cover some of the future cost.
Municipal Reserve / EOS / Recreation	To fund public parks, public recreation assets To fund asset rehabilitation and replacement	Transfers from annual operating budget or amortization of current assets, or one time transfers to boost reserve levels.	TBD
General Capital Reserve  (Or a similar General Maintenance Program)	To fund new Capital projects or for Capital expenditures in the case of an emergency	Unspent annual contributions to Capital from operations, and one-time transfers to boost reserve levels.	TBD