



Policy Title <b>Reserve Policy</b>	Date: <b>December 13, 2024</b>	Resolution No. <b>SBC-24-</b>
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**POLICY STATEMENT:**

1. It is the policy of the Summer Village of Sunbreaker Cove to have reserve funds that contribute to its long-term financial stability and liquidity, position it to respond to varying economic conditions and changes affecting its financial position, and provide dedicated funding sources for long-term capital planning and asset management.

**PURPOSE:**

2. The purpose of this policy is to establish guidelines, limits, and conditions applicable to the segregation of the Summer Village’s accumulated surplus into internally restricted reserves funds, as well as to be transparent in reserve requirements. The reserves practices will ensure a favourable and sustainable financial position while supporting the ability to meet current and future operating and infrastructure requirements by maintaining reserves funds sufficient to achieve the following:
  - a) The organization has sufficient working capital so that it can sustain operations through delays in receipt of payments of committed funding and to accept reimbursable contracts and grants without jeopardizing ongoing operations,
  - b) The organization has sufficient resources to fund the acquisition or construction of new capital assets and the replacement and rehabilitation of major capital infrastructure assets, as required and as identified in the Summer Village’s Strategic, Capital, and Long-Term Financial Strategy Plans,
  - c) Public confidence in the long-term sustainability of the organization is promoted by preventing cash flow crises that can diminish its reputation and force its leaders to make expensive short term, crisis-based decisions,
  - d) The organization has sufficient resources to address unpredictable grants, volatile expenditures, and unanticipated opportunities and/or challenges.
  - e) To contribute favourably to the liquidity position of the organization.

## **DEFINITIONS**

3. "Capital reserves" means the portion of the accumulated surplus that are internally restricted for capital expenditure requirements as identified in the Summer Village's Strategic and Long-Term Financial Plans.
4. "Depreciation" means the amortization amount of fixed assets, such as buildings and equipment, to allocate the cost over its useful life. It is a process of cost allocation and not valuation. Depreciation reduces asset value but does not reduce cash.
5. "Operating Expenses" means the annual expenditures to fund regular operations not including depreciation, tangible capital expenditures, internal transfers to reserves or between departments, or school taxes.
6. "Operating reserves" means the portion of the accumulated surplus that are internally restricted for use in:
  - a) funding working capital requirements, which relate primarily to differences in timing of payments of property taxes and utility bills relative to the timing of expenses including school taxes,
  - b) emergencies, to sustain financial operations for a reasonable period in the event of significant, unanticipated increases in operating expenses and/or losses in operating revenues,
  - c) funding budgeted contingencies for non-emergent but unpredictable revenues, volatile expenditures, and unanticipated opportunities and/or challenges,
  - d) funding for the mitigation of tax rate increases in cases of an emergent and/or non-recurring nature, and
  - e) accounting for significant portions of the accumulated surplus that is not liquid.
7. "Program specific reserves" means the portion of accumulated surplus that are restricted for use in specific initiatives or programs for which the funds are collected.

## **GENERAL GUIDELINES**

8. All reserve transfers, re-designations, revisions, and new account requests 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; or
  - c) A Council resolution.
9. Draws from reserves must not exceed the fund balance unless it can be demonstrated to Council that future sources of revenue will provide adequate funding to return the fund to a positive balance.
  10. All operating and capital reserve funds must be fully described and include a purpose, source of funding, and the rationale used to establish the levels.
  11. Before creating a new reserve fund, the option of adding an incremental contribution to an existing fund of a like nature will be considered.
  12. The prescribed fund limits will be reviewed by Council at least once each term of office.
  13. Reserves shall not accrue interest unless otherwise directed through legislation or policy
  14. The Summer Village will maintain reserve funds in accordance with Schedule A.
  15. Program specific reserve funds are intended to accumulate the money collected for specific initiatives or programs stipulated at the time of collection.

### **MANAGEMENT OF THE RESERVE POLICY**

16. Reserve funds will be drawn down only under circumstances specific to the individual reserve fund.
17. For reporting purposes, the reserve funds will be listed separately in the “notes” section of the Summer Village’s financial statements.

**RESPONSIBILITIES**

- 18. Only Council can approve the drawing down of a fund for operating or capital purposes.
- 19. The Finance Department will review the reserves policies at least every term of Council, or sooner if conditions warrant, and provide recommendations for Council approval.
- 20. Administration will provide Council with:
  - a) Actual year end reserve fund balances after Audited Financial Statements are complete.

**VISION ALIGNMENT**

- 21. The Summer Village’s services and programs respond to the aspirations of its residents and visitors and are delivered in an effective, innovative, and fiscally responsible manner.

**POLICY REVIEW**

- 22. This policy will be reviewed by Council on or before July 31, 2026.

**Repeal/Revision History**

Action	Date	Council Motion	Notes

## Schedule A – Internally Restricted Reserves

### Operating Reserves

- Rate Rider Receivables
- General Operating
- Planning & Development

### Capital Reserves

- General Capital
- Infrastructure
- Sewer
- Shared Equipment & Facilities

Name:	Rate Rider Receivable
Type:	Operating Reserve
Purpose:	To identify the amount of the accumulated surplus that relates to long-term rate rider receivables, where substantially all of it is not liquid and therefore unavailable to achieve any of the general objectives set out in the Purpose section of the Reserves Policy.
Rational to Establish Levels:	Level shall correspond to the amounts identified as “wastewater collection system fee” receivables in the audited financial statements. These receivables were accrued as revenue at year-end 2021. The receivables drop as rate rider payments are received, which will be recognized as a transfer from reserve into revenue.
History:	<p>The wastewater collection system fee receivables stem from 115 property owners using the 25-yr rate rider option to finance a \$4,380 wastewater collection fee levied in 2021. This resulted in the municipality taking out an equivalent amount of long-term debt in 2021, specifically as two 25-yr debentures. The annual rate rider fee was set at \$251.73 over 25 years to match the associated debt obligation.</p> <p>As annual rate rider payments cannot be billed until the property can generate wastewater into the collection system, rate rider receivables are currently less than the long-term debt obligations and rate rider payments will be received after the long-term debt is repaid in 2046. \$695,802 was receivable at yr-end 2023 as compared to remaining long-term debt obligations of \$658,920. An annual deficit between debt obligations and rate rider payments will exist until all 115 properties are connected is being funded by wastewater utility revenues. 85 properties with the rate rider were connected at July 31, 2024, up from 67 at yr-end 2023.</p>
Source of Funding:	No additional funding required
Maximum Balance:	NA
Interest Bearing:	No
Duration:	Till 2046+

Name:	General Operating
Type:	Operating Reserve
Purpose:	For working capital, emergencies, unanticipated operating expenditures, and to mitigate tax rate increases.
Rational to Establish Levels:	<p>Target 67% (8 months) of budgeted Operating Expenditures, with a minimum of \$270,000.</p> <p>Insufficient working capital necessitate short-term borrowing of cash from (1) internally restricted reserves, (2) available completions deposits and deferred revenue, which are not municipal assets, or (3) debt.</p> <p>The working capital requirements need to consider that utilities bills and property taxes notices are issued late May that are not due before June 30 and July 31, respectively. The school requisitions, which are not Operating Expenditures, also need to be paid quarterly, with the first requisition due Mar 31. Some pay utilities and taxes when billed while some pay them when due, and some pay taxes on an installment plan.</p> <p>Operating Expenditures were budgeted at \$452k in 2024. Operating Expenditures plus school requisitions to June 30, 2024, were about \$360k, with school requisitions of \$90k paid quarterly and operating Expenditures during April thru June averaging about \$33k/mo. Working capital needs in 2024, considering expenditure and income profiles, likely peak around May 31 at approximately \$210k in 2024, about 45% of the budgeted Operating Expenditures.</p> <p>The Summer Village previously allocated \$25,000 towards a mill rate stabilization reserve.</p>
Source of Funding:	<ol style="list-style-type: none"> <li>1. Accumulated Surplus</li> <li>2. Annual budget allocations</li> </ol>
Maximum Balance:	\$400,000
Interest Bearing:	No
Duration:	Ongoing

Name:	Planning & Development
Type:	Operating Reserve
Purpose:	To fund outside consultants engaged to develop, rewrite, or implement plans, bylaws, or policies, or obtain provincial approvals. This reserve may also be accessed to fund unbudgeted legal fees.
Rational to Establish Levels:	Adequate funding to cover anticipated costs requiring reserve funding after 10% contingency over the next 5 years, with a minimum level of \$25,000.
Source of Funding:	1. Accumulated Surplus 2. Annual budget allocations
Maximum Balance:	\$100,000
Interest Bearing:	No
Duration:	On-going

Name:	General Capital
Type:	Capital Reserve
Purpose:	To fund major new capital projects or for capital expenditures necessary in cases of emergency.
Rational to Establish Levels:	Consideration should be given to the budget and 5-yr plan as well as a contingency for unanticipated costs, with a minimum level of \$25,000
Source of Funding:	1. Accumulated Surplus 2. Annual budget allocations
Maximum Balance:	\$150,000
Interest Bearing:	No
Duration:	On-going



Name:	Infrastructure
Type:	Capital Reserve
Purpose:	To fund the capital costs to maintain or rehabilitate existing infrastructure other than the sewer or those shared by other Summer Villages.
Rational to Establish Levels:	<p>Adequate funding to cover anticipated costs after 10% contingency requiring reserve funding over the next 6 years, with a minimum projected level at the end of that period of \$150,000. The MGA requires the capital budget and plan to consider a 6-yr time horizon.</p> <p>Consolidating the Road, Land Improvement and Environmental Reserve simplifies calculations as to the need for reserve funding in a long-term capital plan. The long-term capital plan more effectively communicates spending plans rather than how many reserves are shown in the financial report. The sewer reserve is maintained in recognition that its useful life is significantly longer than the rest of our infrastructure and plans to fund it from utility revenue within the next 25+ years.</p> <p>Access to grant funding increasingly requires demonstration that an asset management program exists.</p> <p>Consideration should be given to using a 10-yr time horizon to establish reserve levels rather than a 6-yr horizon.</p>
Source of Funding:	<ol style="list-style-type: none"> <li>1. Accumulated Surplus</li> <li>2. Annual budget allocations</li> </ol>
Maximum Balance:	\$1,000,000
Interest Bearing:	No
Duration:	On-going

Name:	Sewer
Type:	Capital Reserve
Purpose:	To fund wastewater capital projects.
Rational to Establish Levels:	<p>A minimum level of \$50,000 for short-term expenditures.</p> <p>Target growing the sewer reserve to \$1.3 million by 2050 as a reasonable preliminary target to provide partial funding for a potential valve and flush out replacement project in 2051, after 30 years of operation; assumes costs relating to service connections valves are paid as a residential levy, 25% grant funding is available, and inflation averages 2%/yr. The sewer and valves are located below ground and therefore both utility locates with hydrovacung, and site restoration costs will be incurred. Developing an asset management or business plan should be considered before 2040 to validate the target and timelines.</p> <p>Surpluses from an internal wastewater utility shall be the primary source of new funding. For clarity, the surplus shall consider revenues from wastewater utility fees and rate rider payments, while the expenses include payments to the Sylvan Lake Regional Water and Wastewater Commission (SLRWWC), municipal wastewater operating costs, and long-term debt obligations associated with the municipal sewer project.</p>
Source of Funding:	<ol style="list-style-type: none"> <li>1. Accumulated surplus</li> <li>2. Annual budget allocations (i.e. projected surpluses from internal wastewater utility)</li> </ol>
Maximum Balance:	\$1,300,000
Interest Bearing:	No
Duration:	On-going

Name:	Shared Equipment & Facilities
Type:	Capital Reserve
Purpose:	To fund joint services capital projects shared by other Summer Villages on Sylvan Lake, such as vehicles, CPO equipment, office improvements and IT equipment.
Rational to Establish Levels:	<p>Adequate funding to cover anticipated costs requiring reserve funding after 10% contingency over the next 5 years, with a minimum level of \$10,000.</p> <p>The fleet replacement policy requires administration to provide a fleet replacement rate and input as to an associated reserve.</p> <p>Proposed 2024 office renovations could be in the order of \$5,000. Facility improvements in 2023, primarily parking lot related, were about \$19,100.</p>
Source of Funding:	<ol style="list-style-type: none"> <li>1. Accumulated Surplus</li> <li>2. Annual budget allocations</li> </ol>
Maximum Balance:	\$50,000
Interest Bearing:	No
Duration:	On-going