

## 1 PURPOSE OF POLICY

This policy has been developed to provide guidance and direction for the development, maintenance, and the use of the City's reserve and surplus funds.

## 2 DEFINITIONS

- (A) **"Annual Surplus"** means the excess of revenues over expenses for the current year.
- (B) **"Accumulated Surplus"** means the accumulated excess of revenues over expenses from prior years which has not been set aside for specific purposes.
- (C) **"Reserve Funds"** means funds that are set aside for a specified purpose by Council pursuant to section 188 (1) of the Community Charter. These reserves are established via City bylaws and are discretionary on the part of Council.
- (D) **"Mandatory Reserve Funds"** means funds set aside for specified purposes as required by and pursuant to specific legislation. These reserves are established via City bylaws and are nondiscretionary on the part of Council.
- (E) **"Reserves"** means all of the City's reserve funds and mandatory reserve funds.

## 3 POLICY ADMINISTRATION

### 3.1 RESPONSIBILITIES

The Director of Finance & IT will be responsible for:

- Ensuring reserve/surplus funds are established and maintained in compliance with this policy;
- Conducting an annual review of the reserve/surplus funds and reporting the results to City Council;
- On an "as required basis", recommending revisions or amendments to this policy, due to changes in applicable statutes, accounting standards, or economy.

### 3.2 CORPORATE PURPOSE

Reserves must have a unique and specific corporate purposes. Every effort must be made to:

- Reduce complexity by combining amounts with similar purposes,
- Eliminating those with redundant or outdated purposes,
- Re-focus departmental reserves to corporate purposes and strategic plans.

### 3.3 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 plan bylaw.

#### **3.4 MINIMUM AND OPTIMUM RESERVE BALANCES**

A minimum and optimum balance shall be established for each reserve/surplus fund. The minimum balance will ensure that each fund is not depleted to the degree that it is no longer able to serve its intended purpose. The optimum balance ensures the City's guiding principles are achieved and that excess funds are not remaining idle that could be otherwise utilized for other corporate priorities. A review of actual, minimum and optimal fund balances shall be undertaken annually.

#### **3.5 INTERNAL BORROWING**

Internal borrowing from reserve/surplus funds 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 amount and loan duration than external borrowing. Paybacks shall be executed according to plan.

#### **3.6 INTEREST**

All reserve funds will earn interest each year. Interest will be calculated based on the Fund balances at the end of year using the City's average rate of return on investments. Per section 189 (1) of the Community Charter, any interest earning in a reserve fund must be used only for the purpose for which the fund was established.

#### **3.7 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 City's fund balances are not reaching minimum and optimal levels at the time of enacting this policy; however, the City is transitioning towards its optimal targets.

## **4 GUIDING PRINCIPLES AND OBJECTIVES**

#### **GUIDING PRINCIPLES**

All reserve and surplus funds must be established, maintained and used for a specific purpose as mandated by this policy, statute or City bylaw.

The City's management of reserve and surplus funds needs to conform to the statutory and legal requirements of the *Local Government Act* and the *Community Charter*.

#### **OBJECTIVES**

The primary objectives of the City's reserve and surplus funds are to:

##### **a. Ensure Stable and Predictable Levies**

The City recognizes that unstable and unpredictable tax levies can adversely affect residents and businesses in Merritt. In order to maintain stable and predictable levies, the City will maintain sufficient reserves to buffer the impact of any unusual or unplanned cost increases and revenue volatility over multiple budget cycles.

##### **b. Provide for Operating Emergencies**

The City is exposed to unusual operating emergencies resulting from inclement weather, catastrophic events, law enforcement issues, legal claims, insurance claims, tax assessment appeals, environmental hazards and various other events. It may not be feasible, or cost-effective, to absorb the costs in one budget cycle. The City will maintain adequate reserves to minimize the financial impact of such emergencies, extensive service interruptions, and prevent risks to infrastructure and public safety.

##### **c. Finance New Capital Assets**

The use of reserve funds for financing new capital assets is an effective means of matching one-time funds to one-time capital projects. In addition, the City requires financial resources to leverage external funding or to quickly respond to opportunities that could provide capital infrastructure through private sector partnerships, and other alternative service delivery methods. Typically, new capital assets are for an increase to service levels.

##### **d. Safeguard and Maintain Existing Assets**

The City has an inventory of specialized machinery, equipment, technology and infrastructure that are necessary for the efficient delivery of services to the public. These capital assets need to be maintained and replaced according to service lifecycle. The reserve balances are focused on maintaining enough funds overall to manage risk of asset failure with a focus on annual spending and investment of infrastructure rather than maintaining significant balances in reserve. Typically, reserve funds for maintaining existing assets are for maintaining existing service levels.

##### **e. Focus on Long-Term Financial Stability**

The City recognizes that adequate reserve/surplus levels are important in achieving community goals including financial health and stability. The City will strive to be proactive in achieving long-

term financial stability and balancing the costs of maintaining healthy reserves/surplus levels to current and future taxpayers.

## 5 RESERVE CATEGORY

Reserve funds have been categorized by the purpose of the funds to provide additional clarity and direction for the use of the reserve funds. Some reserve funds include more than one category as applicable, mainly the capital reserves that cover both risk mitigation and planned capital spending.

### a. Working Capital

Working capital reserve funds are for cash flow purposes which are the accumulated surplus of each City fund, including general, sewer, water and transit.

### b. Opportunity

Opportunity reserve funds are available to spend on opportunities, outside of regular City maintenance and Community Charter requirements. These reserve funds offer flexibility in the financial planning process.

### c. Dedicated Revenue Source

Dedicated revenue source reserve funds have a dedicated revenue source through the Community Charter, external grant funding or as directed by Council; this includes the DCC reserve fund and Gas Tax Community Works Fund reserve funds.

### d. Risk Mitigation

Reserve fund balances in the capital reserves are focused on maintaining adequate levels in these reserves to cover risk of uninsured asset failure overall, rather than maintaining significant balances in each of the reserve funds.

### e. Planned Capital Spending

Reserve funds are the key mechanism to fund the capital project plan of the City; funding is allocated through the reserve funds from different funding sources. By flowing the funding through the reserves, the tracking of spend for each asset category is more efficient.

## 6 RESERVES CURRENT AND PROPOSED

### 6.1 ACCUMULATED SURPLUSES

The City needs to maintain accumulated surplus balances in its four operating funds (general, water, sewer and transit) for working capital or cash flow purposes. Maintaining minimum working capital funds eliminates the need to borrow externally and/or internally to cover operating expenses before property taxes, user fees and other revenues are collected.

Surplus funds in excess of adequate levels as established by this policy will be transferred to a reserve fund. For general fund, excess will be transferred to the financial stabilization reserve. For sewer, water and transit accumulated surplus; excess funds will be transferred to the respective reserves for these funds.

#### 6.2 OPERATING AND OPPORTUNITY RESERVES

Pursuant to subsection 188 (1) of the Community Charter, Council may, by bylaw, establish a reserve fund for a specified purpose and direct that money be placed to the credit of the reserve fund. The following reserve funds will be established for the purpose(s) identified.

##### 6.2.1 Community Works Gas Tax Reserve

This reserve is to be used pursuant to the Community Works Gas Tax Agreement; funds to be used to build and revitalize public infrastructure that supports national objectives of productivity and economic growth, a clean environment and strong cities and communities. This reserve will be used for enhancements and betterments to the community and to fund Council's strategic capital projects that meet the eligibility criteria of the Community Works Gas Tax Funding Program.

##### 6.2.2 Financial Stabilization Reserve

The financial stabilization reserve will be established for the following purposes:

**Significant Operating Events and Environmental Emergencies** – these appropriations are for major non-reoccurring costs related to significant operating events and various emergency events or situations, for instance significant legal costs/claims, insurance claims/deductibles, significant RCMP events, inclement weather, environmental hazards, and the like.

**Revenue Stabilization and Operating Contingency** – these appropriations are intended to stabilize the impacts of cyclical revenue downturns and operating cost increases that are largely temporary and not within the City's ability to adjust to in the short-term.

**One Time and Intermittent Projects** – these appropriations are to allow the City the flexibility to fund one time and intermittent operating projects without resulting in spikes and declines in general taxation.

Any excess of the financial stabilization reserve will be transferred to the capital reserves.

##### 6.2.3 Climate Change Reserve

The Climate changes reserve will be used to fund projects that will reduce the City's carbon footprint and be instrumental in moving the City towards carbon neutrality.

#### **6.3 CAPITAL RESERVES**

Pursuant to subsection 188 (1) of the Community Charter, Council may by bylaw establish a reserve fund for a specified purpose and direct that money be placed to the credit of the reserve fund. The following capital reserve fund has been established for the purpose(s) identified.

##### **6.3.1 Capital Works Reserve (Current)**

This reserve is to fund capital equipment and works for public works, fire, recreation, sewer and water departments.

##### **6.3.2 Capital Works Reserve (Proposed)**

**Sewer System**

**Water System**

**Fire Protection**

**Roadways and Storm Water Infrastructure**

**Vehicles & Equipment**

**Aquatic Centre**

**Arena**

**Facilities**

**Parks and Recreation**

#### **6.4 MANDATORY RESERVE FUNDS**

If monies are received from specific sources, certain reserve funds must be established for administering these funds, as per specific legislation. These reserve funds are noted below.

##### **6.4.1 Development Cost Charge (DCC) Reserve Funds**

Per subsection 188 (2) (a) of the Community Charter, separate reserves need to be established for DCC collections and use, under section 935 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:

Parkland DCC  
Roads DCC  
Sewer DCC  
Water DCC

#### Drainage Sector DCC

These are reported as deferred revenue in the City's Financial Statements

#### **6.4.2 Parks Dedication**

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 941 of the Local Government Act (monies received in lieu of parkland upon subdivision) must be set aside in a reserve and be used exclusively to purchase parkland. The parks dedication reserve fund has been established for accumulating and expending monies as per this requirement.

#### **6.4.3 Parking Reserve**

The parking reserve fund was established by bylaw and is funded from funds received from developers that don't have enough parking to meet the requirements as per the zoning bylaw. This fund is reserved for the development of parking in the downtown core and could also be used for projects that promote alternative modes of transportation.

#### **6.4.4 Land Sale Reserve**

When the City sells property that it owns, the proceeds are required to go into the land sale reserve fund to be held for future property purchases for the City's use.

#### **6.4.5 Cemetery Care Fund**

The City is required to collect a care fund contribution with the sale of any interment rights (plots) and the installation of memorial markers. These funds are held in a trust fund, and only the interest on the fund may be accessed in certain circumstances. This fund is not included in the City's financials but disclosed in the notes.

**City of Merritt**  
**Reserve and Surplus Policy**

**7 APPENDIX**

The reserves/surplus policy appendix includes additional detail on the City's reserve funds including the funding source, minimum and optimum levels and the rationale for levels established.

<b>Reserve</b>	<b>Category</b>	<b>Purpose</b>	<b>Funding Source(s)</b>	<b>Current Level 2019 YE</b>	<b>Minimum \$ Level</b>	<b>Optimum \$ Level</b>	<b>Rationale for \$ Levels Established.</b>
Accumulated Surplus – General Fund	Working Capital	Cash Flow, unexpected expenses	Annual excess of operating revenues over operating expenses	2,534,290	1,200,000	3,000,000	Should be able to cover 1 – 3 months of operating expenses
Accumulated Surplus – Sewer Fund	Working Capital	Cash Flow, unexpected expenses	Annual excess of operating revenues over operating expenses	3,791,531	89,000	270,000	Should be able to cover 1 – 3 months of operating expenses
Accumulated Surplus – Transit Fund	Working Capital	Cash Flow, unexpected expenses	Annual excess of operating revenues over operating expenses	139,189	28,600	50,000	Should be able to cover 1 – 3 months of operating expenses



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Reserve	Category	Purpose	Funding Source(s)	Current Level 2019 YE	Minimum \$ Level	Optimum \$ Level	Rationale for \$ Levels Established.
Accumulated Surplus – Water Fund	Working Capital	Cash Flow, unexpected expenses	Annual excess of operating revenues over operating expenses	1,481,435	109,000	327,000	Should be able to cover 1 – 3 months of operating expenses
Community Works Gas Tax Reserve	Dedicated revenue source, Planned Capital Spending	To be used pursuant to the Community Works Gas Tax Agreement; funds to be used to build and revitalize public infrastructure	Federal Community Gas Tax Works funds distributed by UBCM annually	2,587,052	N/A	N/A	No range set for levels  Funds can not be used to pay municipal portion of federally funded projects.
Reserve for Future Expenditures - General - Water - Sewer	Opportunity			1,725,424 439,070 1,273,522			Recommendation that these be reallocated into new capital reserves
Financial Stabilization Reserve – General Fund	Risk Mitigation	To reduce impact of tax assessments and expenditure uncertainty	Annual Operating Surplus	Proposed	N/A	N/A	Depends on risk, this could be used for tax leveling with revitalization exemptions

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Reserve	Category	Purpose	Funding Source(s)	Current Level 2019 YE	Minimum \$ Level	Optimum \$ Level	Rationale for \$ Levels Established.
Climate Change	Dedicated Revenue Source	Funding projects to reduce City's Carbon Footprint	Carbon Rebate Funds	Proposed	N/A	N/A	No projects identified at this point
Capital Works - Fire - Recreation - Public Works - Sewer - Water	Planned Capital Spending	Funding Capital Projects	Budgeted annual transfer for Fire and Recreation	298,813 275,090 124,628 9,554 8,820			To be reallocated to individual reserves that are more specific
Sewer System Capital	Planned Capital Spending	Sewer Projects	Budgeted Funding/Allocation of Surplus	Proposed			To be determined through asset management
Fire Protection Capital	Planned Capital Spending	Fire Vehicles and Equipment	Budgeted Funding/Allocation of Surplus	Proposed			To be determined through asset management
Facilities Capital	Planned Capital Spending	Building Reno's and Refurbishments	Budgeted Funding/Allocation of Surplus	Proposed			To be determined through asset management
Aquatic Capital	Planned Capital Spending	Building Reno's and Equipment	Budgeted Funding/Allocation of Surplus	Proposed			To be determined through asset management
Arena Capital	Planned Capital Spending	Building Reno's and Plant Mtce	Budgeted Funding/Allocation of Surplus	Proposed			To be determined through asset management

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Reserve	Category	Purpose	Funding Source(s)	Current Level 2019 YE	Minimum \$ Level	Optimum \$ Level	Rationale for \$ Levels Established.
Parks and Recreation Capital	Planned Capital Spending	Parks and Recreation Capital Projects, including trails	Budgeted Funding/Allocation of Surplus	Proposed			To be determined through asset management
Water System Capital	Planned Capital Spending	Water System Capital	Budgeted Funding/Allocation of Surplus	Proposed			To be determined through asset management
Vehicles and Equipment Capital	Planned Capital Spending	Vehicles and Equipment Purchases for General Fund	Budgeted Funding/Allocation of Surplus	Proposed			To be determined through asset management
Roadways and Stormwater Infrastructure Capital	Planned Capital Spending	Road masterplan and drainage projects	Budgeted Funding/Allocation of Surplus	Proposed			To be determined through asset management
Parkland DCC	Dedicated Revenue Source	Provide partial funding for projects identified in the DCC Bylaw	Developer Contributions	181,464	N/A	N/A	To be defined by DCC Bylaw
Roads DCC	Dedicated Revenue Source	Provide partial funding for projects identified in the DCC Bylaw	Developer Contributions	826,213	N/A	N/A	To be defined by DCC Bylaw

## City of Merritt

### Reserve and Surplus Policy

Reserve	Category	Purpose	Funding Source(s)	Current Level 2019 YE	Minimum \$ Level	Optimum \$ Level	Rationale for \$ Levels Established.
Sewer DCC	Dedicated Revenue Source	Provide partial funding for projects identified in the DCC Bylaw	Developer Contributions	2,886,026	N/A	N/A	To be defined by DCC Bylaw
Water DCC	Dedicated Revenue Source	Provide partial funding for projects identified in the DCC Bylaw	Developer Contributions	897,254	N/A	N/A	To be defined by DCC Bylaw
Drainage Sector DCC	Dedicated Revenue Source	Provide partial funding for projects identified in the DCC Bylaw	Developer Contributions	140,358	N/A	N/A	To be defined by DCC Bylaw
Park Dedication	Dedicated Revenue Source	For future Park Development	Developer cash in lieu of parkland	107,675	N/A	N/A	Dependent on development
Parking Reserve	Dedicated Revenue Source	For future parking needs	Per bylaw in lieu of parking spaces	75,914	N/A	N/A	Dependent on development
Land Sale Reserve	Dedicated Revenue Source	For future land purchases	Proceeds from City owned property sales/budgeted funding	13,148	N/A	N/A	Dependent on plans for land acquisitions

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Reserve	Category	Purpose	Funding Source(s)	Current Level 2019 YE	Minimum \$ Level	Optimum \$ Level	Rationale for \$ Levels Established.
Cemetery Care Fund	Dedicated Revenue Source	Cemetery Sustainability	Portion of all plot sales and marker placement fees	166,521	N/A	N/A	Depends on demand and rates

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