



**City of
Lloydminster**

Policy

Policy Title:	Reserves Policy	Policy Number:	134-04
Date of Adoption:	September 23, 2019	Motion Number:	251-2019
Date of Amendment:		Motion Number:	
Sponsoring Department:	Finance		

1. Purpose:

- 1.1. To provide a safeguard and assist with long term financial stability and financial planning.
- 1.2. To outline the goals and objectives related to the City’s Reserves.
- 1.3. To ensure financial resources are available to maintain a viable and sustainable community.

2. Objective:

- 2.1. Reserves shall be established and expanded to:
 - 2.1.1. ensure stable and predictable tax levies;
 - 2.1.2. provide for operating Emergencies;
 - 2.1.3. finance new capital Assets; and
 - 2.1.4. safeguard and maximize existing Assets.

3. Definitions:

- 3.1. General Definitions:

Administration	An employee or contract employee of the City of Lloydminster.
Asset	An item with physical substance that has a useful life more than one year, will be used on a continuing basis, and is not for sale in the ordinary course of operations.
Council	Individuals elected pursuant to <i>The Local Government Election Act</i> (Saskatchewan) as a Member of Council.

Emergency	An unforeseen combination of circumstances or the resulting state that calls for immediate action or an urgent need for assistance or relief due to a man-made or natural disaster which may require urgent intervention to prevent worsening the situation.
Reserves	Funds that are set aside for a future purpose by Council.

3.2. Specific Reserve Definitions:

City Manager Contingency Reserve	Established as an amount that the City Manager can utilize as Emergency, unexpected or urgent item. The Reserve will have a beginning balance annually. The City Manager could draw on in accordance with the threshold amounts of the Purchasing policy for the City Manager and therefore will not require Council approval for withdrawal. The Reserve will be replenished by end of each year.
Employee Benefit Obligations Reserve	Established when the City is incurring a retirement benefit liability or other employee related liability, which the City is obligated to pay at some future date. The City provides a sick leave benefit plan based on the accumulation if the plan is not utilized during their employment term the employee is entitled to a cash payment upon retirement based on one-half of the accumulated credit, subject to a minimum of 55 years of age and 10 years of employment with the City. This Reserve will be established and adjusted annually at yearend.
Equipment and Infrastructure Reserve	Established to create a funding source for building and infrastructure capital projects, new equipment purchases and capital equipment replacement programs.
Innovation Reserve	Established as an incentive to encourage creativity and innovation. Allocations from this Reserve may be made to fund departments and or workgroups that would like to explore innovative and creative solutions directed towards making the City more efficient and effective. Business cases to the City Manager and the Executive Leadership Team requesting the use of these funds require that the replenishment methods be specified. These would include future departmental cost or service level adjustments or additional revenue

	generation necessary to top up the accounts over a three-year period.
Landfill Closure and Post-Closure Liability Reserve	Established to fund the closure of landfill sites and provide for post-closure care of the facilities.
Offsite Levies Reserve	This Reserve is required by the Offsite Levies Bylaw as amended from time to time, to account for the proceeds from development cost charges levied against new developments. The Reserve is funded from the proceeds of development cost charges levied. Use of these funds is determined by the Offsite Levies Bylaw and is restricted to the funding approved projects as allowed by that bylaw.
Sale of City Land and Building Reserves	Established to account for proceeds from any sales of City land and buildings.
Sustainability/Resiliency Reserve	Established to offset extraordinary and unforeseen expenditure requirements, one-time expenditures, Emergency, revenue shortfalls, to minimize fluctuations on the general tax levy and to manage cashflows. The targeted balance for the Stabilization reserve is to be a maximum of 10% of the annual municipal taxation levy for its own purposes.

4. Scope:

4.1. This policy applies to all Members of Council and Administration.

5. Guiding Principles:

5.1. By maintaining Reserves, the City can accumulate funds for future or contingent liabilities - a key component of a sound long-term financial planning practices.

5.2. Reserves are at the discretion of Council, often as part of an overall strategy for funding programs or projects.

5.3. Reserves are segregated and restricted for specific purposes. In a municipality a distinction is further made between Obligatory and Discretionary Reserves.

5.3.1. Restricted Reserves (Obligatory) are created where provincial legislation requires revenue received for special purposes to be segregated from the general revenues of the municipality. Restricted Reserve Funds are obligatory and can only be used for their prescribed purposes. Examples include Offsite Levies, Municipal Reserve Funds,

School Funds, Landfill Reclamation and Utility Reserves that are not funded by taxation etc.

5.3.2. Unrestricted Reserves (Discretionary) are established, based on Council's direction, to finance future expenditures for which the City has the authority to spend money or to provide for a specific purpose. Several discretionary Reserve Funds have been established to assist in funding long term programs. The best examples of these discretionary Reserve are vehicle and equipment replacement.

5.4. Reserves are not associated with any specific Asset.

5.5. Reserves are generally used as a funding source to mitigate the impact of fluctuations in operating costs and revenue reductions over multiple budget cycles. Reserves help to eliminate varied highs and lows in the taxation rates resulting in a more horizontal tax rate with an incline for inflation.

5.6. Reserves do not typically earn interest unless it is an Obligatory Reserves, and/or it is established to earn interest by Council.

5.7. Council must establish target guidelines for Capital Reserve contribution as a ratio to capital asset value. The target should be to set aside annually between 2 – 3 % of the historical gross book value.

i.e. 2018 gross \$748,980,071 x .02 = \$14,979,601

2018 net book value \$472,693,396 x .02 = \$9,453,867

2019 currently \$5,224,407

6. General Criteria:

6.1. Reserves shall be established, maintained and used in accordance with the following general criteria:

6.1.1. Shall meet statutory and legislative requirements, City Bylaws, City policies and Council direction.

6.1.2. Shall meet accounting standards. Reserves must meet generally accepted accounting principles.

7. Policy Administration:

7.1. The Chief Financial Officer shall be responsible for:

7.1.1. ensuring compliance with this policy;

7.1.2. ensuring that the Reserves are established and maintained;

- 7.1.3. conducting an annual review of the Reserves and report annually in the Audited Financial Statements;
- 7.1.4. on an "as required basis", recommend revisions or amendments to this Policy due to changes in applicable statutes, accounting standards or economy.
- 7.1.5. ensuring allocations of Reserves, with the exception of the City Manager's Reserve, are supported in the adopted budget or by Council resolution;
- 7.1.6. monitoring ceiling limits on individual Reserves establish by Council's discretion;
- 7.1.7. ensuring operating reserve balances will not exceed a maximum of 10% of the related department budgeted deficit. Exceptions to the rule will be Reserves established with an independent maximum such as the Innovation Reserve or the City Manager Contingency Reserve but also the self-supported departments' 10% will be determined on the total budgeted expense;
- 7.1.8. monitoring that total budgeted transfers to Capital Reserves from the operating budget in each calendar year and shall correspond with the future capital expenditures that are outlined in the 10-year capital plan or equipment replacement plans;
- 7.1.9. presenting the annual yearend surplus allocation proposal from the City Manager and the Executive Leadership Team to Council for approval based on the following and subsequent to capital carry forward allocations being approved by Council:
 - i. to support operating reserves first to their established maximum.
 - ii. any remaining surplus balances will be forwarded to related departments capital Reserve unless otherwise allocated by Executive Leadership Team or by Council.
 - iii. in the event a department is in a deficit position, a draw from Reserves may be proposed to address the deficit.
- 7.1.10. monitoring that Reserves never fall into negative balance. If a negative balance does occur, the manager of the department responsible will prepare a plan to be approved by the City Manager and Chief Financial Officer to return the Reserve balance to an appropriate positive balance; and
- 7.1.11. monitoring the total amount of Reserves is funded by verifying quarterly that the following formulas are held true:

- i. (Cash + short-term investments + long-term investments) \geq total reserves balance
- ii. Short-term investments \geq total reserve allocated for current year capital projects

8. Penalty:

- 8.1. Any staff member found to be in violation of this policy may be subjected to a disciplinary action. Such action may be dependent upon the nature of the breach of this policy; discipline may range from a written warning to dismissal with cause.
- 8.2. Any Member of Council found to be in violation of this policy may be dealt with utilizing the "*Code of Conduct Bylaw*" or provisions of "*The Lloydminster Charter*."

9. Responsibility:

- 9.1. City Council shall review and approve all policies.
- 9.2. City Administration shall administer the policy through the use of a supporting procedure.
- 9.3. Sponsoring Department is responsible for creating and amending a supporting procedure.
- 9.4. This Policy shall be reviewed one (1) year from date of last review.