



Lethbridge County Policy Handbook

EFFECTIVE: October 5, 2017

SECTION: 100 NO. 169 Pge 1 of 11

APPROVED BY: County Council

SUBJECT: County Reserves

REVISED DATE:

PURPOSE:

The purpose of the Reserve Policy is to develop a standard practice that will enhance Lethbridge County's financial strength, flexibility and cash flow management as well as to help sustain infrastructure needs at an adequate level to ensure delivery of services and support of the County's Strategic Long Range Plan.

The policy will establish consistent standards and guidelines for the management of existing reserves and the establishment of new reserves.

A Reserve Policy is required to establish, maintain and manage reserve funds that:

- maintain and improve Lethbridge County's working capital requirements;
- provide for future operating and capital requirements;
- address the overall current and future initiatives of Lethbridge County; and
- provide for offsetting unanticipated fluctuations in operating and capital activities.

DEFINITIONS:

Operating Reserves - Operating reserves are those reserves that are generally established to fund one-time expenditures of an operating nature or to provide stabilization to the budget as required.

Capital Reserves - Capital reserves are those reserves that are generally established to fund expenditures of a capital nature, support grant funding and provide funding for capital deficits or for a specified purpose.

Committed Reserves – Committed reserves are reserves that have been established for a very specific project/purpose or long term receivable/lending purpose, such as a local improvement (offsite levy) as determined by bylaw. These reserves are not to be considered for additional funding purposes.

Carryover Projects - Carryover projects are projects approved in the current year's operating and/or capital budgets but have not been expended due to various circumstances.



Lethbridge County Policy Handbook

EFFECTIVE: October 5, 2017

SECTION: 100 NO. 169 Pge 2 of 11

APPROVED BY: County Council

SUBJECT: County Reserves

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Minimum Balances – The minimum balance is determined by the need and use of the reserve to maintain adequate funds are available. This balance may be subject to change depending upon future requirements.

Reserve Limits – The maximum balance or reserve limits are determined by the need and use of the reserve as well as the required replacement values of the County's infrastructure where applicable. This balance may be subject to change depending upon future requirements.

RESERVE LIMITS:

1. Maximum balances will be established on individual reserves at Council's discretion.
2. Reserve limits will be reviewed by the Controller and Senior Management for Council approval as required.
3. Department Supervisors may make a request to Senior Management to have their reserve limits changed should they have a valid reason for doing so.
4. The total reserve balance, excluding committed reserves, should be higher than or equal to one years' worth of tax support for the County.

PROCEDURES:

1. All reserve transactions, re-designations, revisions and new reserve requests must be ratified by Council. These approvals will be comprehensively reviewed by the external auditor at the close of the fiscal year.
2. All reserves must be fully described and must include a purpose, application, and approval. Unless otherwise stated, all funds are considered committed for the specific purpose as outlined by the reserve.
3. All reserve accounts must be represented in the County's financial statements.
4. All reserves will be reviewed by Senior Administration to determine if the reserves are still required. When the original intent of the reserve has been met or changed, any remaining amounts in the reserve shall, through an appropriate



Lethbridge County Policy Handbook

EFFECTIVE: October 5, 2017

SECTION: 100 NO. 169 Pge 3 of 11

APPROVED BY: County Council

SUBJECT: County Reserves

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review and approval process by Administration, be either returned to surplus or re-designated, with final approval of Council.

5. Reserves can be funded from either internal or external sources:

Examples of internal sources of funds:

- approved budget contributions
 - designated annual transfers
 - equipment sales revenues
- carryover of current year's budget funds which were approved for a specific purpose but were not expended during the year; and
- annual surplus contributions;

Examples of external sources of funds:

- government grants;
- land sales/revenues; and
- donations.

6. Departments may submit reserve requests to fund existing or new reserves:

- through the annual budget process; or
- from unexpended current year's operating or capital budgets to fund carryover projects.
 - Reserves created for carryover projects and approved by Council may be drawn by the Departments after the actual expenditure has been incurred with no further approval required, provided the expenditure occurs in the fiscal year following the year in which the project was originally budgeted; or
 - through unbudgeted revenues; or
 - from annual budget surpluses to fund new or ongoing initiatives.

7. Interest will be paid to those reserves as designated within the Reserve Listing, unless otherwise recommended by the Chief Administrative Officer and approved by Council. Interest may also be paid to those reserves where the future cost (future expenditure of funds) to undertake an initiative or project might be subject to inflation. Interest will be based on the reserve balance at each year end and calculated based on the annual average interest rate as received through the County's investments.



Lethbridge County Policy Handbook

EFFECTIVE: October 5, 2017

SECTION: 100 NO. 169 Pge 4 of 11

APPROVED BY: County Council

SUBJECT: County Reserves

REVISED DATE:

The interest that has been earned on the investments throughout the year will be used to fund the reserve interest and will be transferred to the appropriate reserved as part of the annual year end process. Interest amounts applied to reserves may need be adjusted to ensure that the annual interest transferred does not exceed the amount of interest earned within that year. If a reserve has met its Reserve Limit, interest may not be applied.

8. All expenditures from reserves must have prior approval. Approval will be obtained:
 - from annual operating or capital budget approval; or
 - from approved carryover projects; or
 - by Council resolution.
9. Approval to re-designate reserve funds or approval for inter-reserve transfers must be obtained prior to the transaction occurring from:
 - Council for re-designations/inter-reserve transfers of more than \$50,000.
10. Expenditures from reserves must not exceed the reserves minimum balance unless it can be demonstrated to Council through financial cash flow projections that future sources of revenues will provide adequate funding to return the reserve to a positive balance. The plan to replenish the reserve must be included in the upcoming budget.

RESPONSIBILITIES:

11. All reserves shall be administered by Controller and/or Director of Corporate Services under the direction of the Chief Administrative Officer and in accordance with current municipal policies and generally accepted accounting principles.
12. Reserve transactions will not be processed until actual expenditures are incurred. Departments must notify the Finance Department when reserve funding for these expenditures is required with Council approval.



Lethbridge County Policy Handbook

EFFECTIVE: October 5, 2017

SECTION: 100 NO. 169 Pge 5 of 11

APPROVED BY: County Council

SUBJECT: County Reserves

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13. The Finance Department is responsible for developing accounting procedures for reserve transactions and to provide guidance to Departments in complying with the intent of the policy. The Finance Department is the resource available for consultation on any points requiring clarification.
 14. If a reserve meets its Maximum balance, all additional budgeted transfers will be transferred to the Tax Equalization reserve, until that reserve falls back under its maximum amount.



Lethbridge County Policy Handbook

RESERVE LISTING: (Policy 169)

CAPITAL RESERVES

<u>RESERVE</u>	<u>RESERVE PURPOSE</u>	<u>FUNDING SOURCES</u>	<u>INTEREST EARNED</u>	<u>MINIMUM BALANCE</u>	<u>MAXIMUM BALANCE</u>
Administration Building	Capital maintenance, purchases and future projects related to the Administration Building	* Annual budget transfer * Surplus transfers as approved by Council	Yes	\$250,000	\$8,000,000
Airport Infrastructure	Capital maintenance & purchases related to the Airport Terminal Building and Infrastructure	* Surplus transfers as approved by Council * Funds transferred at Year End for a specific project	Yes	\$100,000	\$30,000,000
ASB Future Projects	Capital Equipment or Project Specific Purchases	* Surplus transfers as approved by Council	Yes	\$50,000	\$150,000
Commercial/Industrial Land	To promote future commercial/industrial economic development within the County	* Transfer as approved by Council * Land Sale Revenues	Yes	\$1,000,000	\$10,000,000
Emergency Services - EARS Contributions for Coaldale, Coalhurst, Nobleford, Picture Butte and Barons	To assist with funding of Emergency related equipment as per the Agreements with each Municipality	* Annual budgeted transfer as per the agreements	Yes	\$0	\$2,500,000
Fleet Equipment Replacement	Capital Equipment Replacements related to Fleet	* Annual budget transfer * Equipment Sale Revenues * Surplus transfers as approved by Council	Yes	\$1,500,000	\$15,000,000
Gravel Pit Reclamation	Reclamation of Gravel Pits	* Transfer as approved by Council	Yes	\$50,000	\$200,000



Lethbridge County Policy Handbook

IT Capital	Capital Maintenance or Replacement of IT Equipment	<i>*Annual budget transfer</i> <i>*Equipment Sale Revenues</i> <i>*Surplus transfers as approved by Council</i>	Yes	\$100,000	\$500,000
PW Capital Projects	Capital Projects/Purchases and Equipment Purchases	<i>*Annual budget transfer</i> <i>*Surplus transfers as approved by Council</i>	Yes	\$1,000,000	\$5,000,000
Utility Capital	Capital Projects, Replacements and Equipment Purchases	<i>*Annual budget transfer</i> <i>*Surplus transfers as approved by Council</i>	Yes	\$1,000,000	\$36,000,000



Lethbridge County Policy Handbook

OPERATING RESERVES

<u>RESERVE</u>	<u>RESERVE PURPOSE</u>	<u>FUNDING SOURCES</u>	<u>INTEREST EARNED</u>	<u>MINIMUM BALANCE</u>	<u>MAXIMUM BALANCE</u>
Council Discretionary	To assist with funding of Council approved requests or annually budget projects/purchases	* <i>Surplus transfers as approved by Council</i>	No	\$25,000	\$100,000
Donation Reserve	To funds requests from the public as they are brought forward to Council	* <i>Surplus transfers as approved by Council</i>	No	\$0	\$15,000
Drainage	Capital Projects related to drainage/storm sewer	* <i>Annual budget transfer</i> * <i>Surplus transfers as approved by Council</i>	No	\$200,000	\$1,000,000
Emergency Services – Disaster Recovery Contingency	To assist with funding of costs associated with Emergencies/Disaster Recovery	* <i>Annual budgeted transfer</i>	No	\$100,000	\$1,000,000
Emergency Services Projects	To fund Emergency Services projects, initiatives, CPO equipment and emergency equipment repairs	* <i>Annual budgeted transfer</i> * <i>Surplus transfers as approved by Council</i>	No	\$50,000	\$100,000
IT Projects	To funds annual IT Equipment and supplies as per the budget	* <i>Annual budgeted transfer</i>	No	\$50,000	\$200,000
Recreation	To assist with Recreation related expenses	* <i>Surplus transfers as approved by Council</i>	No	\$25,000	\$225,000
Safety Program	To fund Safety Related Initiatives, programs &/or	* <i>Transfer of WCB surplus funds</i>	No	\$25,000	\$75,000



Lethbridge County Policy Handbook

	events	<i>approved by Council</i>			
Snow Removal	To offset any budget overruns due to a heavy snowfall year	<i>* Annual budgeted transfer</i>	No	\$200,000	\$1,000,000
Tax Equalization Reserve	To offset operating costs or projects as required through the budget process or as per Council Approval	<i>* Surplus transfers as approved by Council</i>	No	\$500,000	UNLIMITED



Lethbridge County Policy Handbook

COMMITTED RESERVES

<u>RESERVE</u>	<u>RESERVE PURPOSE</u>	<u>FUNDING SOURCES</u>	<u>INTEREST EARNED</u>	<u>MINIMUM BALANCE</u>	<u>MAXIMUM BALANCE</u>
*Diamond City Prepaid Frontage	This reserve is set up to record the Diamond City Local Improvement payments received annually	<i>*No funding is required this reserve will eventually become null and void</i>	No	Current Balance of outstanding Local Improvement	\$0
Landfill Road (Kedon)	Future improvements to Landfill Road	<i>* Annual budget transfer as per agreement</i>	No	\$27,000	\$2,000,000
Market Access Network – Base Stabilization	To fund the Calcium Base Stabilization Program specific to the Market Access Network	<i>*Carry forward funds from Base Stabilization Program * Transfers as approved by Council</i>	No	\$0	\$1,500,000
Market Access Network – Bridges	To fund Bridge Replacements or Repairs specific to the Market Access Network	<i>*Carry forward funds from Base Stabilization Program * Transfers as approved by Council</i>	No	\$0	\$1,500,000
Market Access Network – Hard Top Surfaces	To fund Hard Top Road Surface Rehabilitations or Repairs specific to the Market Access Network	<i>*Annual Budgeted Transfer *Carry forward funds from Base Stabilization Program * Transfers as approved by Council</i>	No	\$500,000	\$2,500,000
	This reserve is set up to record the	<i>* No funding is required</i>	No	Current Balance of	\$0



Lethbridge County Policy Handbook

*Monarch LIT	Diamond City Local Improvement payments received annually	<i>this reserve will eventually become null and void</i>		outstanding Local Improvement	
Mountain Meadows LIT	This reserve is set up to record the Diamond City Local Improvement payments received annually	<i> No funding is required this reserve will eventually become null and void</i>	No	Current Balance of outstanding Local Improvement	\$0
Tax Supported Committed Projects	For carry forward projects that have been committed to and funded through the budget but were not started or completed within that budget year	<i>*Annual transfer of budgeted funds as approved by Council</i>	No	\$0	\$1,000,000
Turin LIT	This reserve is set up to record the Diamond City Local Improvement payments received annually	<i> No funding is required this reserve will eventually become null and void</i>	No	Current Balance of outstanding Local Improvement	\$0

**The above noted reserves are labelled as "Committed Reserves" as per the definitions and have very specific purposes. The Local Improvement related reserves were set up as a requirement of the County Auditors. However, they have been identified in the policy and are represented in the Annual Financial Statements.*