



Policy:	C27 – Financial Reserves
Policy Department(s):	Financial and Business Planning Services
Adoption Date:	June 27, 2016
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Policy Purpose

The Financial Reserves Policy is intended to help the County accomplish three main goals: achieve property tax stability, contribute to the orderly provision of services and to accommodate future growth needs.

Policy Statement

Council's overall intent is to set guidelines for the establishment, allocation and target limits of reserve funds, and to ensure that these funds are managed prudently and efficiently achieving maximum return of such funds. In so doing, align reserves with long-term planning and reflect the administrative needs of all departments of the County.

Reserve funds are used to ensure financial stability, risk mitigation, cash flow smoothing, fund large capital projects, reduce debt dependence, and a spin-off is investment income.

Definitions

"Annual Surplus" means the accumulated excess of revenues over expenditures for the current year.

"Capital" means any tangible asset with an estimated useful life exceeding one year, including: land or buildings; facility construction, renovation, or repair; facility assessment, design, or construction documents to support the projects; furnishings and/or equipment for use at community operated facilities; site improvements.

"Infrastructure" means the fundamental facilities and systems serving the County of Grande Prairie including but not limited to transportation, utility, and communications systems.

"Reserve" means funds created when funds are set aside (designated) for a future purpose.

"Target Level" means the recommended optimal balance for the reserve.

"TCA" means tangible capital assets as defined by Public Sector Accounting Standards.



Policy Guidelines

1. Financial reserves are established by Council, which are essential to the financial management and operations of the County.
2. Reserve balances are built up over time with deliberate budgeted contributions for specific uses and from excesses over budget due to higher revenue or lower expenses than budgeted.
3. These funds are setup to finance operating and capital expenditures as designated by Council, who also authorizes all transfers to and from reserves:
 - 3.1. Contributions to and draws from Reserves represent a source or use of reserve funds.
 - 3.2. These contributions are not expenses to the County and represent the allocation of Accumulated Surplus of the County.
 - 3.3. Conversely, draws from the Reserves are not revenue earned by the County and represent the application of the County's Accumulated Surplus.
 - 3.4. Reserve balances are consolidated within the County's Accumulated Surplus position, which is reflected in the Consolidated Statement of Financial Position.

Reserve Categories

4. The County's reserves are categorized based on their purpose: operating reserves, capital reserves, and statutory or externally restricted reserves.
5. Operating reserves are used to ensure financial stability, risk mitigation associated with revenue and expenses, and operating cash flow smoothing.
6. Capital reserves are calculated based on the County's estimated capital needs, which are linked to the long-term capital plans to identify upcoming projects and their associated costs. This will help determine the required target amount for capital reserves.
7. Statutory or externally restricted reserves are governed by provincial legislation and guidelines for statutory reserves. These reserves can only be used for the purpose that the funds were received for by the County.
8. Prudent financial management requires the County to retain a Financial Stabilization Reserve, which is used to mitigate assessment and inflationary risks. This is calculated by assessing the risks associated with tax revenue and inflationary or commodity price fluctuations of operating expenses, its impact and the probability that such risks will occur.
9. The General Reserve funds are uncommitted and are available to respond to various unanticipated costs, stabilize various funding sources, or for emergencies such as fluctuations due to extreme weather or a pandemic.



10. Cash flow smoothing reserves are used to mitigate fluctuations in cash flows and to promote a stable tax structure. The future cash flow periods should not be less than 3 years for operating reserves and not less than 5 years for capital reserves. This approach is in line with the annual budgeting process, which functions on a similar time scale.
11. TCA Smoothing Reserves are used to fund TCA replacements which exceed the annual reserve contributions. The contributions are calculated based on the County's 10 ten-year capital replacement schedule. These reserves are assessed on a consolidated basis and not on an individual asset class basis.
12. Special purpose reserves may be setup by Council from time to time. These reserves are internally restricted and can only be used for the purposes as defined by Council.

Target Levels

13. Reserves are not permitted to be in a negative balance.
14. Reserve target levels are based on the risk assessment, capital needs, and statutory requirements for each category. One approach is to use a percentage of the annual operating budget, or a specific dollar amount based on historical expenses and future projections.
15. Operating reserves, in total, should be a minimum target level of 15% of the annual operating revenue budget, depending on the level of risk and financial stability.
16. Capital reserves, in total, should be a minimum target level of 25% of the annual operating revenue budget and consider the estimated cost of upcoming capital projects, considering factors like project timelines, inflation, and potential funding sources.
17. Target levels should be regularly reviewed, and reserve levels adjusted to ensure they remain adequate and in line with the County's needs and priorities. This should be done at least annually, as part of the budgeting process.

Reserve Usage Strategy

18. Optimal reserve levels and conditions when to use reserves are fluid and will vary depending on several factors:
 - 18.1. Economic risk factors such as interest and inflation rates.
 - 18.2. Risks associated with revenue and expense streams.
 - 18.2.1. Assessment values and price stability
 - 18.2.2. Size and number of "population" (tax base and expenditure types)
 - 18.2.3. Diversity and nature of "population" (tax base and expenditure types)
 - 18.3. Cost of new debt versus return on investments.



- 18.4. Preference may be given to debt funding when total reserve balances are below 40% of the Annual Operating Budget.
- 18.5. Conversely, reserve funding may be preferred when total reserve balances exceed 60% of the Annual Operating Budget.

Interest

- 19. Interest earnings will be applied to reserves when external requirements are imposed by legislation or agreements. Interest will be credited to the reserves at the end of the year and prior to finalization of the year-end audit.
- 20. The interest is calculated based on the average reserve balances for the year.
- 21. Annual interest rates on these reserves are based on the weighted average of interest earned by the County on its long-term investments.

Attachments

Schedule A – Schedule of Reserves

References

Legal Authorities	Municipal Government Act, RSA 2000, c M-26 Chartered Professional Accountants of Canada - Public Sector Accounting Standards
Related Plans, Bylaws, Policies, Etc.	B1 – Policy Development Policy K5 – Capital Assistance Grants Policy N47 – County Road Surfacing Bylaw 2702 – Off-Site Levies as amended by Bylaws 2844, 3086 and 3121
Other	N/A

Revision History

Review Date	Description
December 15, 2023	Reviewed and Amended BM20231213.013
October 4, 2021	Reviewed and Amended CM 20211004.017
September 14, 2020	Reviewed and Amended CM20200914.009
April 24, 2017	Reviewed and Amended CM20170424.1009
June 27, 2016	Adopted CM20160627.1047



Schedule A – Schedule of Reserves

Operating Reserves

Name	Financial Stabilization Reserve
Purpose	To establish a fund to shield from future property tax increases resulting from unexpected increases in expenditures due to inflationary or commodity price or decreases in municipal tax revenue.
Funding Source	Funding for this reserve will be made through: a) Transfer from unrestricted annual surplus. b) Budgeted amount that will meet the reserve target level requirements.
Reserve Level	The recommended minimum target amount for this reserve is 5% of the prior year's net operating revenue. The County's tolerance for risk and uncertainty associated with its revenue sources and operating expenses (risk percentage exposure) should be reviewed annually for all assessment classes, and major expenditures for inflationary and commodity price risks.
Application	These funds may be expended to fund operating deficits resulting from unexpected decreases in general revenues or unanticipated increases in expenditures due to inflationary or commodity price fluctuations as approved by Council.
Duration	This reserve is to remain in effect in perpetuity.
Interest Bearing	This reserve is non-interest bearing.

Name	Community Grants Reserve
Purpose	To establish a fund to provide financial assistance to local organizations and groups to support capital costs and/or operating costs associated with the delivery of programs, services and events that promote active, safe, and sustainable communities and improve quality of life in the County.
Funding Source	Transfer to reserve is a 3% escalator based on prior year budget and any unallocated funds from other County or internal recreation and culture grants programs annually as described in Policy K5 – Capital Assistance Grants Policy in the section entitled 'Funding'.
Reserve Level	The recommended minimum target amount of this reserve is \$200,000 not including prior year committed carryovers
Application	Funding may be spent on projects meeting the criteria in Policies K2-100th Anniversary Grant, K6-Community Assistance Grant, K7-Cemetery Improvement Grant, K10-Capital Grants (Facilities), K14-Operating Assistance Facilities, or K15-Operating Assistance – Recreation Advisory Boards as approved by Council.
Duration	This reserve is to remain in effect until such time as Council moves to dissolve the fund.
Interest Bearing	This reserve is non-interest bearing.



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Name	General Operating Reserve
Purpose	To establish a general operating fund to offset one-time expenditures and/or operating costs which do not occur annually, preventing unnecessary spikes in revenue requirements for the operating budget.
Funding Source	Funding for this reserve will be made through: <ol style="list-style-type: none"> a) Transfer equal to 20% of the current year surplus, excluding non-cash transactions. b) Budgeted amount that will meet the reserve minimum target level requirements. c) Released funds from the Year End Carry Forward Reserve. d) Operating budget of the subsequent year will be used to replenish the shortfall from withdrawals made during the current year.
Reserve Level	The recommended minimum target amount of this reserve will be ten per cent (10%) of prior year's net operating revenues.
Application	These funds may be used to balance the current year deficit; or for non-budgeted operating items approved by Council during the year. In the event the fund balance is greater than 10% at the end of any fiscal year, the excess may be used in one of or a combination of the following ways: <ul style="list-style-type: none"> • One-time expenditures which do not increase recurring operating costs. • Other one-time costs, or the establishment of or increase in legitimate reservations or designations of reserve balance.
Duration	This reserve is to remain in effect until such time as Council moves to dissolve the fund.
Interest Bearing	This reserve is non-interest bearing.



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Name	Health and Safety Reserve
Purpose	To establish a fund to recognize County employees' joint effort to maintain a healthy and safe working environment. This reserve will also accumulate the funds for 27 th pay period when it occurs.
Funding Source	Funding for this reserve will be made through: <ul style="list-style-type: none"> a) Rebates or premium reductions received from the Workers Compensation Board Partnerships in Injury (PIR) Program. b) Budgeted annual transfer of 0.384% of the County's annual salary budget for salaried staff.
Reserve Level	Not Applicable
Application	Funding is to be spent on items to recognize County staff for their efforts in maintaining a healthy, safe, and productive workplace, as approved by Council and to fund the 27 th bi-weekly pay period in those years in which it occurs.
Duration	This reserve is to remain in effect until such time as Council moves to dissolve the fund.
Interest Bearing	This reserve is non-interest bearing.

Name	Hythe Reserve
Purpose	To establish a fund for expenditures related to the hamlet of Hythe
Funding Source	Funding for this reserve will be made through: <ul style="list-style-type: none"> a) Atco franchise fees collected. b) Previous reserve funds acquired from dissolution. c) Budgeted annual transfers as required.
Reserve Level	Not Applicable
Application	Funding is to be spent on expenditures required for the hamlet of Hythe as approved by Council. Atco franchise fees will be accumulated to pay down debentures acquired from Hythe.
Duration	This reserve is to remain in effect until such time as Council moves to dissolve the fund.
Interest Bearing	This reserve is non-interest bearing.

Name	Philip J. Currie Dinosaur Museum Building Maintenance/Rehab Reserve
Purpose	To establish a fund for major facility maintenance or repairs as required through an agreement between the County and River of Death and Discovery Society
Funding Source	Budgeted annual transfers as approved by Council.
Reserve Level	The recommended minimum target amount of this reserve is \$1,000,000.
Application	Funds may be expended to renovate or refurbish the Philips J. Currie Dinosaur Museum as approved by Council.
Duration	This reserve is to remain in effect until such time as Council moves to dissolve the fund.
Interest Bearing	This reserve is non-interest bearing.



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Name	Regional Fire Services Operating Equipment Reserve
Purpose	To establish a fund to purchase new or replace existing specialized fire equipment (outside of the Mobile Equipment Replacement Plan) based on the life cycle plans, that is essential for providing fire services.
Funding Source	Budgeted annual transfer as approved by Council.
Reserve Level	The recommended minimum target amount of this reserve is \$1,500,000
Application	These funds may be expended to purchase or replace existing operating equipment, gear, breathing apparatus and firefighting equipment as approved by Council.
Duration	This reserve is to remain in effect until such time as Council moves to dissolve the fund.
Interest Bearing	This reserve is non-interest bearing.

Name	Sportsplex Building Maintenance Reserve
Purpose	To establish a fund for major facility maintenance or repairs as required at the Crosslink County Sportsplex
Funding Source	Budgeted annual transfer of \$100,000 as approved by Council.
Reserve Level	The recommended minimum target amount of this reserve is \$100,000 with a maximum of \$1,500,000.
Application	These funds may be expended to renovate or refurbish the Crosslink County Sportsplex as approved by Council.
Duration	This reserve is to remain in effect until such time as Council moves to dissolve the fund.
Interest Bearing	This reserve is non-interest bearing.

Capital Reserves

Name	Clairmont Landfill Reserve
Purpose	To ensure funds are available to fund additional cell development as required.
Funding Source	Funding for this reserve will be made through: a) Transfer of \$8/Metric Tonne received by the landfill for cell construction.
Reserve Level	The recommended minimum target amount of this reserve will be the remaining useful life of the cell divided by cost of future cell replacement. The maximum amount of this reserve is \$4,200,000 or cost of future cell replacement.
Application	These funds are to be used towards the construction of new cell development.
Duration	This reserve is to remain in effect until such time as Council moves to dissolve the fund.
Interest Bearing	This reserve is non-interest bearing.



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Name	Community Aggregate (CAP) Reserve
Purpose	To establish a fund under the authority of County By-law 3106 – Aggregate Levy Bylaw.
Funding Source	Transfer of recovery fees collected under By-law 3106 on sand and gravel leases located and operating within the County of Grande Prairie.
Reserve Level	Not Applicable
Application	These funds may be expended to fund community infrastructure projects as approved by Council.
Duration	This reserve is to remain in effect until such time as Bylaw 3106 is discontinued, levies are no longer collected, and all remaining funds have been expended.

Name	Community Investment Fund
Purpose	To establish a fund for the construction of infrastructure assets that are required and/or which allow further economic development in the County, while providing investment income for future reinvestment.
Funding Source	Funding for this reserve will be made through: <ul style="list-style-type: none"> a) Franchise fees; b) Discretionary and non-discretionary dividends received from Aquatera Utilities Inc. c) Recoveries from development to connect to County-owned water and sewer infrastructure.
Reserve Level	The recommended minimum target amount of this reserve is \$3,000,000.
Application	These funds may be expended to fund: <ul style="list-style-type: none"> a) Debt payments on financing incurred to fund water and wastewater infrastructure projects; b) Debt payments on any borrowing to fund local improvement projects; c) Investment in construction of water or wastewater infrastructure within the County as needed not limited to Aquatera growth needs, as approved by Council.
Duration	This reserve is to remain in effect until such time as Council moves to dissolve the fund.
Interest Bearing	This reserve is non-interest bearing



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Name	General Capital Reserve
Purpose	To establish a general capital fund to help maintain a stable municipal taxation structure and to accommodate current year capital funding requirements that have not been previously established from existing reserves.
Funding Source	Funding for this reserve will be made through: <ul style="list-style-type: none"> a) Transfer equal to 80% of the current year surplus, excluding non-cash transactions. b) Budgeted amounts that will meet the reserve target level requirements. c) Released funds from the Year End Carry Forward Reserve
Reserve Level	The recommended minimum target of this reserve is \$20,000,000 .
Application	These funds may be expended for emergency type expenditures, or for additional capital items that require funding and Council approval during the year.
Duration	This reserve is to remain in effect until such time as Council moves to dissolve the fund.
Interest Bearing	This reserve is non-interest bearing.

Name	New Road Infrastructure Reserve
Purpose	To establish a fund to upgrade gravel roads to pavement once they have met the criteria in Policy N47 – County Road Surfacing Policy.
Funding Source	Budgeted annual transfer as approved by Council.
Reserve Level	The recommended minimum target amount of this reserve is \$2,000,000 and the maximum amount of this reserve is \$10,000,000 .
Application	These funds may be expended to fund the upgrade of eligible roads to pavement, as approved by Council.
Duration	This reserve is to remain in effect until such time as Council moves to dissolve the fund.
Interest Bearing	This reserve is non-interest bearing.



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Name	Road Bond Reserve
Purpose	To establish a fund to manage the collection and use of revenues received from industrial road bonding.
Funding Source	Funding for this Reserve is by means of revenue collected under the Fees, Rates and Charges Bylaw – Heavy Load Agreements, as amended from time to time.
Reserve Level	Not Applicable
Application	These funds may be expended to fund the annual road maintenance plan or other road projects, targeting the repair of roads damaged by industrial use.
Duration	This reserve is to remain in effect until such time as Heavy Load Agreement levies in the Fees, Rates and Charges Bylaw, as amended from time to time are no longer collected and all remaining funds have been expended.
Interest Bearing	This reserve is non-interest bearing.

Name	Debt Repayment Reserve
Purpose	To establish a fund to repay debentures taken on the County projects as designated by Council to be repaid from reserves.
Funding Source	Budgeted annual transfer as required and approved by Council.
Reserve Level	Not Applicable
Application	Annual transfers from this reserve will occur to meet the debt payment obligations of the Alberta Capital Finance Authority debentures taken as approved by Council. Currently, includes County Sportsplex.
Duration	This reserve is to remain in effect until all remaining funds have been expended.
Interest Bearing	This reserve is non-interest bearing.



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Name	TCA Replacement Smoothing Reserve
Purpose	To establish a fund for the replacement of existing tangible capital assets on a regularly scheduled annual basis.
Reserve Subcategories	This reserve encompasses the following sub-categories: a) Bridge Replacement b) Mobile Equipment Replacement c) Facilities Rehabilitation and Replacement d) Surfaced Road Rehabilitation
	Funding for this reserve will be made through: a) Budgeted amount that will meet the reserve target level requirements. b) Annual transfer based on the annual rolling average of the 10-year future cash flows to replace existing TCA. c) Transfer of disposal proceeds for sale of assets.
Reserve Level	The recommended minimum target amount of this reserve is equal to the annual transfer amount (average of the 10-year future cash flow forecast) including excess contributions from prior years that will be utilized in subsequent years based on the 10-year cash flow forecast. The reserve will increase, or decrease based on the difference between the annual transfer amount and actual costs incurred to replace existing TCA.
Application	These funds may be expended to fund the rehabilitation and replacement of existing TCA, as approved by Council.
Duration	This reserve is to remain in effect until such time as Council moves to dissolve the fund.
Interest Bearing	This reserve is non-interest bearing.

Name	Year End Carry Forward Projects Reserve
Purpose	To carry the funding for specific projects or programs where the service or acquisition was not completed or received by year end, but will occur in the following year, to eliminate the requirement to re-budget or cancel partially completed projects.
Funding Source	Transfer previously approved funds by council in prior year budgets for projects that need to continue in the following year.
Reserve Level	The recommended target amount of this reserve should equal total carry forward projects as per the budget. Any funds remaining once a project is completed will be released to the General Operating or/and General Capital Reserve.
Application	These funds may be expended to fund expenditures for the intended purpose as included in the budget approved by council.
Duration	This reserve is to remain in effect until such time as Council moves to dissolve the fund.
Interest Bearing	This reserve is non-interest bearing.



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Externally Restricted Reserves

Name	Municipal Reserve
Purpose	To establish a reserve to develop green space or parks within the County in accordance with Section 671(4) of the Municipal Government Act.
Funding Source	Transfer of funds received from developers in lieu of designating lands for municipal reserve as outlined in Section 667 of the MGA.
Reserve Level	Not Applicable
Application	These funds may be expended on creation or enhancement of: <ul style="list-style-type: none"> a) A public park; b) A public recreation area; c) School board purposes; d) To separate areas of land that are used for different purposes. in accordance with Section 671(2) of the MGA, as approved by Council.
Duration	This reserve is to remain in effect in perpetuity.
Interest Bearing	Interest earned on the reserve fund will accrue back to the reserve.

Name	Road Improvement Fee Reserve
Purpose	To collect levies received from developers under Section 655 of the Municipal Government Act within areas of the County not identified in Bylaw 2702 as Zones 1, 2 or 3.
Funding Source	Transfer of road improvement levies received under Section 655 of the MGA. Current road improvement fees are \$700/acre at the time of subdivision.
Reserve Level	Not Applicable
Application	These funds may be expended to fund new or expanded arterial roads and related infrastructure within the County, as approved by Council.
Duration	This reserve is to remain in effect until all remaining funds have been expended.
Interest Bearing	This reserve is non-interest bearing.

Name	Storm Sewer Levy Reserve
Purpose	To collect fees received from developers under Section 655 of the Municipal Government Act for the purpose of developing stormwater infrastructure.
Funding Source	Transfer of storm sewer recovery fees received under Section 655 of the MGA.
Reserve Level	Not Applicable
Application	These funds may be expended to fund new or expanded stormwater systems and related infrastructure within the County, as approved by Council.
Duration	This reserve is to remain in effect until all remaining funds have been expended.
Interest Bearing	This reserve is non-interest bearing.



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Name	Zone 1 Transportation Offsite Levy Reserve
Purpose	To collect levies received from developers under Bylaw 2702 – Offsite Levies within the identified Zone 1 area.
Funding Source	Transfer of offsite development levies received under Bylaw 2702.
Reserve Level	Not Applicable
Application	These funds may be expended to fund new or expanded arterial roads within Zone 1 as outlined in Bylaw 2702, as approved by Council.
Duration	This reserve is to remain in effect until all remaining funds have been expended.
Interest Bearing	This reserve is non-interest bearing.

Name	Zone 2 Transportation Offsite Levy Reserve
Purpose	To collect levies received from developers under Bylaw 2702 – Offsite Levies within the identified Zone 2 area.
Funding Source	Transfer of offsite development levies received under Bylaw 2702.
Reserve Level	Not Applicable
Application	These funds may be expended to fund new or expanded arterial roads within Zone 2 as outlined in Bylaw 2702, as approved by Council.
Duration	This reserve is to remain in effect until all remaining funds have been expended.
Interest Bearing	This reserve is non-interest bearing.

Name	Zone 3 Transportation Offsite Levy Reserve
Purpose	To collect levies received from developers under Bylaw 2702 – Offsite Levies within the identified Zone 3 area.
Funding Source	Transfer of offsite development levies received under Bylaw 2702.
Reserve Level	Not Applicable
Application	These funds may be expended to fund new or expanded arterial roads within Zone 3 as outlined in Bylaw 2702, as approved by Council.
Duration	This reserve is to remain in effect until all remaining funds have been expended.
Interest Bearing	This reserve is non-interest bearing.