

Revised FIN-001-024 Financial Reserves Policy**Report Purpose**

To seek Council's approval of proposed revisions to FIN-001-024: Financial Reserves Policy.

Recommendation

THAT the revised FIN-001-024: Financial Reserves Policy, as set out in enclosure 2 of the March 5, 2019 Corporate Finance report, be approved.

Our Prioritized Strategic Goals

Goal 1 - Build strong communities to support the diverse needs of residents

Goal 2 - Manage, invest and plan for sustainable municipal infrastructure

Goal 6 - Provide facilities and services that are available and accessible to residents

Report

As a part of the year-end process, financial reserves are brought forward for Council ratification and consideration of Optimal Balances. This provides an opportunity to recall the purpose of reserves and key terminology. Prior to considering the 2018 year-end reserve results, there are a number of updates to the Financial Reserves policy that require Council consideration.

The proposed revisions to the Financial Reserves policy do not significantly change the nature of the policy or the guidance within. A number of administrative changes have accumulated during the year that require an update to better align with the use of the reserves or to align with other decisions that have been made.

The most significant proposed change is to the optimal balance for the R5 Municipal Infrastructure Lifecycle, Maintenance, and Replacement Reserve (R5 MILMR). At the February 27 and March 6, 2018 Council Meetings, it was identified that the R5 MILMR has been trending over its optimal balance for the last three years. A commitment was made to analyze this reserve further in correlation with the next business planning and budget cycle and bring subsequent recommendations forward to Council.

As a result of a review of the individual assets including consideration of efficiencies and their lifecycle requirements, it was determined a revision to the optimal balance formula would better align with the future infrastructure needs. To accommodate the longer lifecycle plans of some annual programs and to assist in addressing some of the peak requirements a three part formula is proposed as shown below:

- Part a) Five year average of the capital and operating forecast for annual program related projects;
- Part b) Average of capital and operating for annual program related projects based on lifecycle; and
- Part c) 50% of peak requirements for Class 1 rural roads and double decker capital costs.

Part a is a continuation of the original formula to be applied to most infrastructure and Part b is required to address infrastructure that has longer lifecycle considerations. Part c provides specific consideration to transit bus replacements and the Class 1 Rural Road program as they were identified with significant peaks in their lifecycles.

If the revised Optimal Balance formula is approved, the philosophy behind the R5 MILMR Reserve will be to retain a balance equivalent to an average of one year's infrastructure lifecycle, maintenance and replacement needs while addressing part of the peak requirements that are planned to arise. The intention will be that alternate financing sources, such as grants or debt, will be used in addition to reserves for costs in excess of the optimal balance calculations.

The revised FIN-001-024: Financial Reserves policy is included in Enclosure 1 and 2 and the changes are summarized in the following:

Summary of Proposed Changes	
R1 & R2 – Stabilization and Contingency	Merge these two reserves into one to align with best practices including adjusting the optimal balance for the combined reserve to 5% of prior year Municipal operating expenses.
R3 – Municipal Year End Carry Forwards	Adjust the reserve description to include the ability to redesignate unspent approved projects funded from other reserves to the Carry Forward reserve during the year-end review and carryforward approval process.
R5 – Municipal Infrastructure Lifecycle, Maintenance and Replacement	Update the Optimal Balance formula to better represent the long term requirements of individual infrastructure asset lifecycles.
R6 – Council Priority Funds	Adjust the reserve description to align with revisions made to the GOV-001-032: Council Priority Fund Expenditure policy.
R7 – Strathcona Community Investment Program	Remove this reserve as per Council direction to close the reserve and redirect the funds to the Family and Community Services grant program (Motion Sept 27, 2018).
R8 – Public Reserve Trust & R9 - General Land Reserve	Adjust the reserve descriptions to align with changes made to the SER-012-011: Land Management policy.
R14 – Secondary Approaches	Collapse this reserve into the R5 MILMR reserve as this is part of the annual rural roads program.
R16 – Heartland Infrastructure	Create a new Special Purpose reserve for the Heartland Infrastructure funds.

To align with the multi-year budget endorsement, for your information Enclosure 3 reflects the projected designated reserve balances over the next four years in comparison to the 2018 year-end optimal balances. Optimal balances are calculated at a point in time at year-end and should be considered in relation to resulting trends and projections. Recommendations regarding the optimal balance calculation results are included with the Draft 2018 Annual Operating Surplus / (Deficit) for Tax Purposes, Reserve Transactions and Recommended Allocations report.

Council and Committee History

December 6, 2018	Council approved the 2019 Budget and the 2020-2022 budgets in principle.
March 6, 2018	Council approved that the reserve activity in the 2017 Reserve Continuity report (unaudited), as set out in Enclosure 1, be ratified.
February 27, 2018	Council approved the recommended allocations of \$7,651,950 for the 2017 municipal operating surplus, as set out in Enclosure 3, including a transfer of \$6,322,317 to the R4 Municipal Projects Reserve and \$1,329,633 to the R2 Contingency Reserve.
July 4, 2017	Council approved the revised FIN-001-024: Financial Reserves Policy, as set out in Enclosure 1 of the July 4, 2017 Financial Services report.

Other Impacts

Policy: Pursuant to County Policy GOV-002-021: Mandatory Review of Bylaws and Policies, Strathcona County will periodically review and evaluate all bylaws and policies to ensure that they are timely, effective and appropriate.

Legislative/Legal: *Municipal Government Act*, RSA 200, cM-26

Interdepartmental: All departments

Master Plan/Framework: n/a

Enclosures

1	FIN-001-024 – Financial Reserves Policy (with proposed changes)
2	FIN-001-024 – Financial Reserves Policy (revised)
3	2018 Reserve Projections
4	Update Financial Reserves Policy Presentation