

Update Financial Reserves Policy

**Strathcona County
Council Meeting
March 5, 2019**

What are Financial Reserves?

Financial reserves are created when funds are set aside (designated) for a future purpose.

Reserves can be used for:

- One-time purchases or projects;
- Emergent requirements;
- Future infrastructure needs; and
- Stabilization of fluctuations in operating and capital activities.

Household Example:

- Similar to a savings account
- May want to purchase something specific (i.e. nicer car), or save for maintenance such as a furnace replacement, or have savings for emergent issues

What is their purpose?

Reserves are a prudent business practice that will enhance:

- Strathcona County's financial strength and flexibility;
- Cash flow management; and
- Ability to achieve the Council Vision and Strategic Plan priorities.

Maintain and improve Strathcona County's working capital requirements

- Working capital requirement is the amount of money that a company needs to keep on hand in order to finance the gap between disbursements (payments to suppliers) and receipts (payments from customers) and still be able to pay its debt obligations and other business related expenses.
- It is working capital that allows us to minimize some risk. For example, it is identified in the debt management policy that debt will be issued after the costs are incurred.

Reserve Policy and Terminology

The purpose of **FIN-001-024: Financial Reserves Policy** is to maintain consistent standards and guidelines for the management of reserves and execution of reserve transactions, and ensure that all reserve transactions are approved by Council and carried out in accordance with Council's approval.

Designated = Funding designated to reserves for a specific purpose, which has not yet been approved by Council to be applied towards specific expenditures.

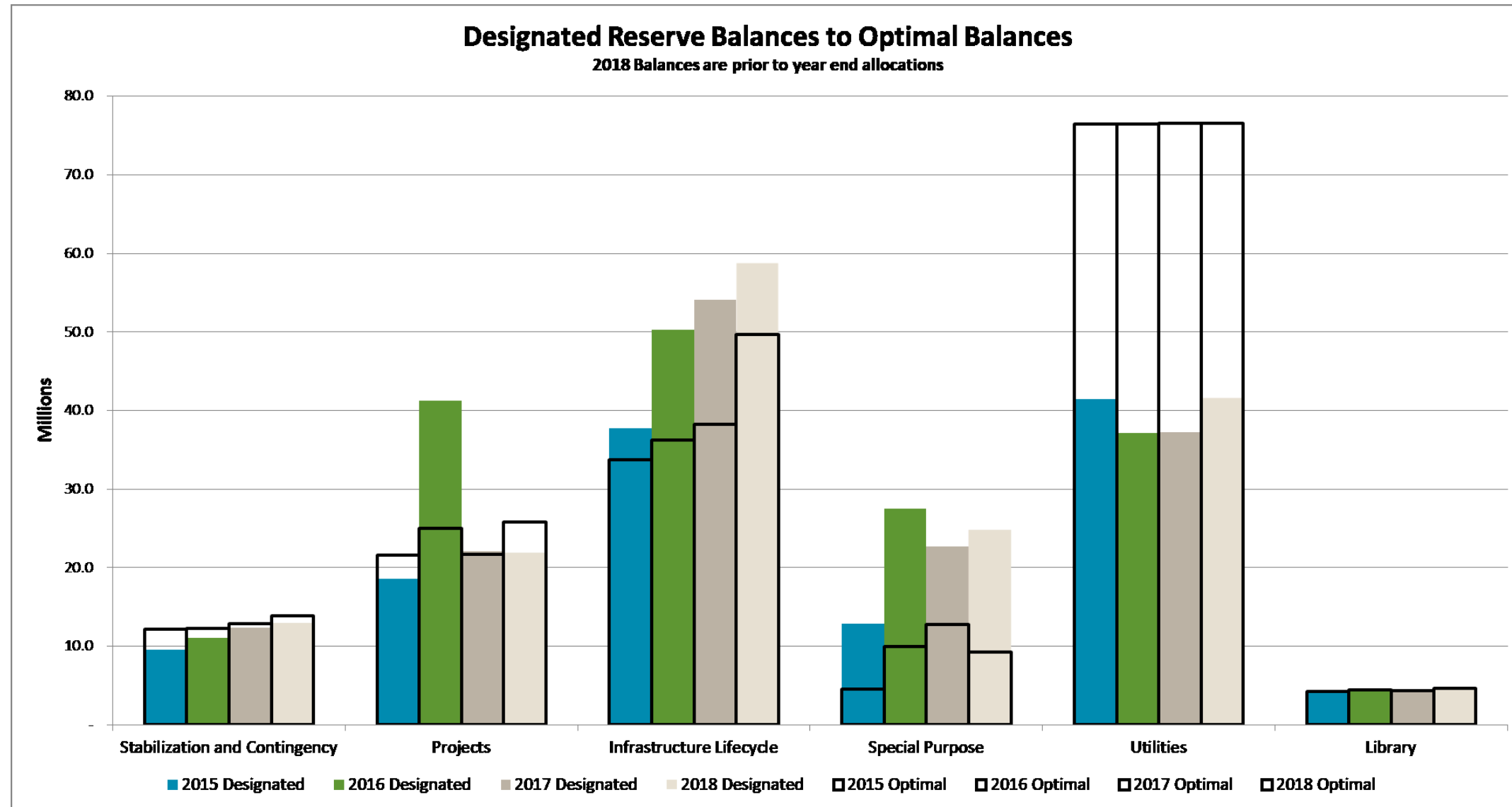
Committed = Funding approved (as per FIN-001-024: Financial Reserves policy) to be applied towards specific expenditures.

Note – the term reserves is also used in the planning discipline for land purposes (i.e. Municipal Reserves and Environmental Reserves).

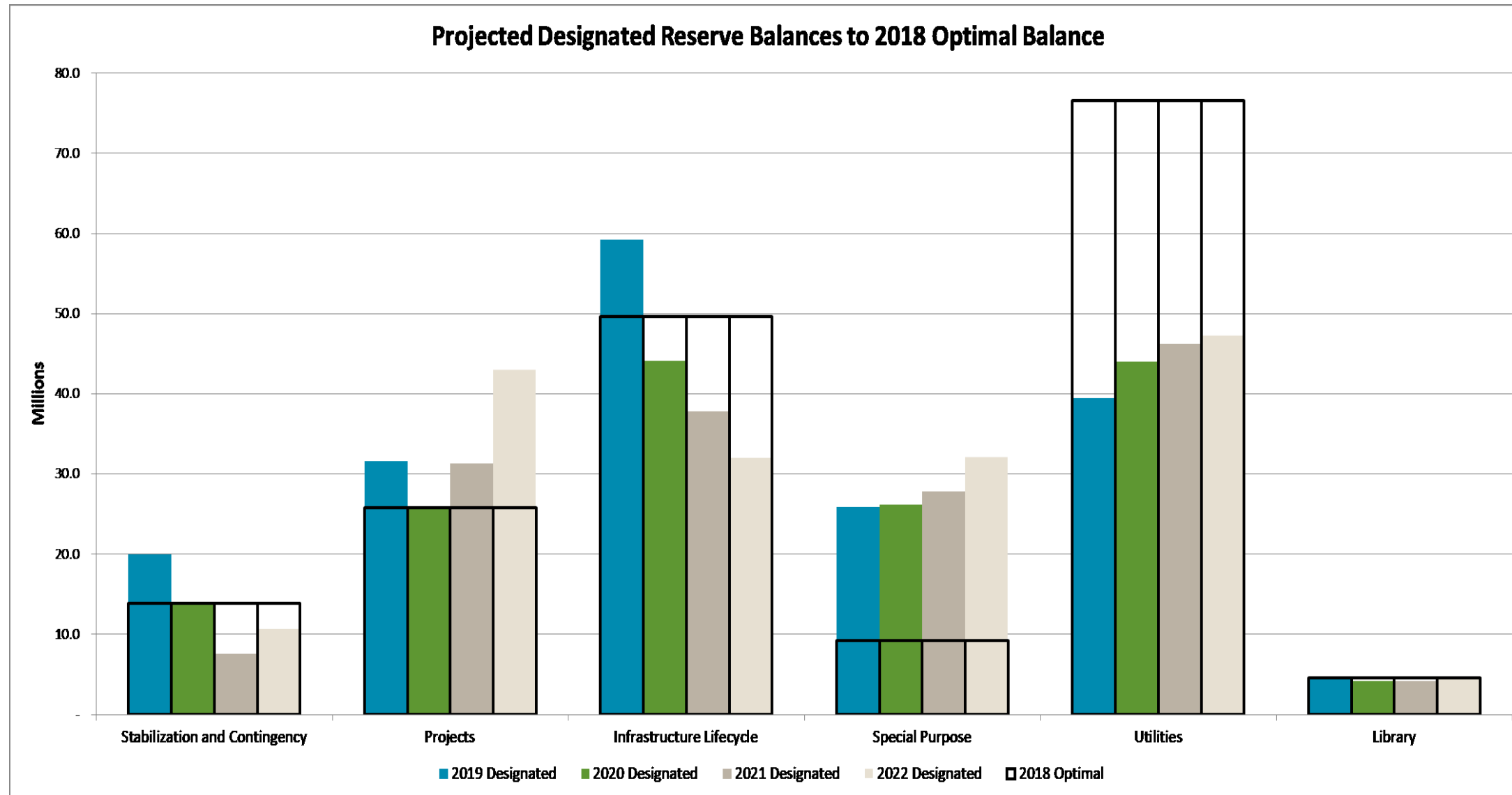
Optimal Reserve Formulas

- Schedule A in the FIN-001-024: Financial Reserves Policy provides a listing of optimal balance formulas for each reserve.
- During the year end process, the formulas will be applied and variances will be assessed between optimal balances and current designated balances.
- Strategies to maintain the optimal balances will be addressed through the business planning and budget cycles.
- Optimal balances are calculated at a point in time therefore it is important to analyze and assess variances rather than making immediate adjustments.

Designated Reserve Balances to Optimal Balances



Multi-Year Reserve Projections



R5 Municipal Infrastructure Lifecycle, Maintenance and Replacement Reserve Review

- Reviewed individual asset lifecycle requirements with departments to identify efficiencies and future infrastructure needs.
- Determined that a revision in the Optimal Balance formula would be necessary to align with the complex future infrastructure requirements of various assets.
- A three part formula is recommended to address annual programs with longer lifecycles and to assist in addressing some of the peak requirements.
- Philosophy behind the optimal balance of this reserve will be equivalent to the average of one year's infrastructure lifecycle, maintenance and replacement needs while addressing part of the peak requirements. Alternate financing sources, such as grants or debt, will be required to meet costs in excess of the optimal balance calculations.

R5 MILMR Optimal Balance Formula

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

ASSET TYPE	LIFECYCLE TERM	FORMULA COMPONENT
ITS Corporate Infrastructure	5 years	part a
RPC Lifecycle	5 years	part a
SCES Lifecycle	5 years	part a
TAS Programs	5 years	part a
Fleet Vehicle & Equipment	7 years	part b
Facility Lifecycle	10 years	part b
Transit Fleet Replacement	15 years	part b & c
Class 1 Rural Road Program	10 years	part c

Summary of Proposed Changes

- Merge R1 & R2 into one Stabilization and Contingency reserve
- Adjust the R3 Municipal Year End Carry Forward 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
- Revise the R5 Municipal Infrastructure Lifecycle, Maintenance and Replacement reserve Optimal Balance formula
- Adjust the R6 Council Priority Funds reserve to align the reserve description with changes made to the GOV-001-032 Council Priority Funds Expenditure policy

Summary of Proposed Changes continued

- Remove the R7 Strathcona Community Investment Program reserve as per Council direction to close this reserve
- Adjust the reserve descriptions for R8 Public Reserve Trust and R9 General Land Reserve to align the reserve descriptions with the updated SER-012-011 Land Management Policy
- Collapse the R14 Secondary Approaches reserve into the R5 Municipal Infrastructure Lifecycle, Maintenance and Replacement reserve as this is part of the annual rural roads program
- Create a new R16 special purpose reserve for the Heartland Infrastructure funds