

TOWN OF GRAND COULEE  
RESERVE ALLOCATION POLICY

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| <i>Section</i>                         | <i>Classification</i> |
| General Governance                     | Policy                |
| <i>Approved (Date)</i>                 | <i>Motion No.</i>     |
| October 19, 2021<br>September 24, 2024 | #7<br>Res# 2024-171   |

**PURPOSE**

To establish guidelines for the allocation of any year-end operating surplus into reserves. The primary purpose for reserves is:

- Adherence to statutory requirements;
- Promotion of financial stability and flexibility;
- Provision for major capital expenditures;
- Smooth expenditures which would otherwise cause fluctuation in the operating budget; and
- To take advantage of financial opportunities that may arise.

**POLICY**

**1. Establishment of Reserves**

- a. Reserves will be maintained to meet one of the following purposes:
  - i. Asset Replacement: established to smooth the spikes in capital budget and smooth out property tax changes
  - ii. Project Reserves: established to provide cost effective self-borrowing mechanisms to reduce risks associated with interest rate fluctuations
  - iii. Economic Stability Reserves: established to buffer against significant fluctuations in the economy
  - iv. Contingency Reserves: established to accommodate contingent, unfunded or known liabilities (where the amount is unknown) for current and/or future years
  - v. Working Fund Reserves: established to provide cash flow for operations to eliminate the requirement to borrow funds to meet the immediate obligations without a designated purpose
- b. Reserves can be established through inclusion in the annual budget or through resolution of Council.

**2. Reserve Allocation**

- a. The allocation of the year-end operating surplus should be consistent with Council's view of long term financial sustainability and in line with best practice

financial management.

- b. Approval of funding to and from reserves will be done through the budget process or by specific resolution or bylaws.
- c. It is recommended that the primary objective when allocating surplus funds is to transfer to general reserves (to act as tax rate stabilization fund to smooth future volatility in operating costs and tax increase). This general guideline may be superseded by more immediate financial needs identified by Council.
- d. The annual operating surplus may be wholly or partially allocated to fund capital work (i.e. water & sewer reserves, capital replacement, infrastructure fee, etc.) in order to reduce future debt servicing costs and/or create capacity within the Town's debt ratios.
- e. The year-end Water & Sewer budget surplus will be allocated to the appropriate Water & Sewer Reserve.

### **3. Reserve Account Description**

- a. In order to provide clear guidance and understanding of the various reserve accounts established by the Town, a detailed description of each reserve account is provided in **Schedule A: Reserve Accounts**. This schedule outlines the specific purpose and intended use of each reserve, including Future Expenditures (General) Reserves, Infrastructure Fee, Water and Sewer, Capital Replacement, and the newly established Road and Drainage Reserve. The descriptions in this schedule are intended to guide future councils in making informed financial decisions regarding reserve allocations.

## Schedule A: Reserve Accounts

The reserve accounts within the Town of Grand Coulee are established for various purposes to ensure long-term financial stability and planning. Below is a description of each reserve account:

### **1. Future Expenditures (General) Reserves**

This reserve is designated for unanticipated general future expenditures and to provide financial flexibility for the Town. It ensures that funds are available for significant operating or capital projects that may arise without impacting property taxes or operational budgets.

### **2. Infrastructure Fee Reserve**

The infrastructure fee is collected as part of the utility billing and is reserved for significant repair and maintenance projects related to water and sewer lines. This reserve helps cover heavy repair costs and maintains the integrity of critical utility infrastructure.

### **3. Water and Sewer Reserve**

Funds from the year-end water and sewer budget surplus are allocated to this reserve. It is used for major projects like lagoon upgrades or other large-scale improvements to the Town's water and sewer systems, ensuring long-term sustainability of these essential services.

### **4. Capital Replacement Reserve**

This reserve is established for the replacement of capital assets such as equipment, computers, and generators. It ensures that funds are available for replacing or upgrading essential equipment that is critical to the Town's operations, reducing the need for emergency capital borrowing.

### **5. Road and Drainage Reserve (New)**

The Road and Drainage Reserve is established to fund both short-term and long-term planning for road and drainage remediation and continuous maintenance. It will accumulate funds for major drainage projects, road repairs, and future road infrastructure upgrades. This reserve aims to reduce the financial impact of large-scale infrastructure projects on annual budgets and mitigate drainage issues.