

## COUNCIL POLICY



## RESERVES

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Policy #: FIN-105-2024

Section: Finance

Rescind Policy #: n/a

Legislative Reference:

### 1. POLICY STATEMENT

1.1 The Reserve Policy is to ensure adequate working capital is available for cash flow and contingency purposes, and as a source of funding the Town's long-term capital plan, while maintaining reasonable tax rates and user fees.

### 2. PURPOSE

2.1 To establish Reserves that will allow for future planned and unplanned expenditures required by the municipality. Reserves and Reserve Funds shall be established for the following purposes:

- To facilitate long-term financial planning.
- To plan for asset management and the impact and financing of major capital projects.
- To provide for the cost of equipment or facility replacements.
- To smooth tax rate impacts and revenue fluctuations.
- To absorb the cost of one-time expenses not included in the operating budget.
- To fund future obligations.

### 3. DEFINITIONS

3.1 In this Policy:

- a) *"Budget Carry-Over"* means reserve funds from budgeted items from previous year(s) that are either incomplete or not yet started.
- b) *"Capital Reserves"* means the portion of unrestricted net assets that the Town maintains, or that Council has designated (or "restricted") for use in maintaining an adequate Reserve to acquire or construct new capital assets and replace and rehabilitate major capital infrastructure assets as required.
- c) *"CAO"* shall mean the Chief Administrative Officer of the Town of Smoky Lake.
- d) *"Council"* means the Chief Elected Officials of the Town of Smoky Lake.
- e) *"Operating Reserves"* means the portion of unrestricted net assets that the Town maintains, or that Council has designated (or "restricted") for use in:
  - emergencies to sustain financial operations for a reasonable period in the event of significant and unanticipated, unbudgeted increases in operating expenses and/or losses in operating revenues.
  - funding budgeted contingencies for non-emergent but unpredictable revenues, volatile expenditures, and unanticipated opportunities and/or challenges; and/or

- funding for the mitigation of tax rate increases.
- f) *“Reserve(s)”* means an appropriation from net revenue and/or cost savings at the discretion of Council, after the provision for all known expenditures. It has no reference to any specific asset and does not require the physical segregation of money or assets as in the case of a Reserve Fund. Municipal Councils may set up Reserves for any purpose for which they have the authority to spend money.
  - g) *“Reserve Fund(s)”* means the funds that have been set aside either by a bylaw of the municipality or by a requirement of senior government statute or agreement to meet a future event. As a result, Reserve Funds are either "discretionary" being those set up by Council, or "obligatory" being those set up by virtue of a requirement of senior government statute or agreement. Municipal Councils may set up Reserves.
  - h) *“Town”* means the municipality of the Town of Smoky Lake.

#### 4. GENERAL GUIDELINES

- 4.1 All Reserve transfers, re-designations, revisions, and new account requests must be approved by Council. Approvals may be in the form of:
  - a) The annual operating or capital budget approval;
  - b) A Budget Carry-Over project that was contained in an approved operating or capital budget; or
  - c) A Council resolution.
- 4.2 Draws from Reserves must not exceed the fund balance unless it can be demonstrated to Council that future sources of revenue will provide adequate funding to return the fund to a positive balance.
- 4.3 Before creating a new Reserve Fund, the option of adding an incremental contribution to an existing fund of a like nature will be considered.

#### 5. RESERVE CATEGORIES

- 5.1 Unrestricted Operating Reserves (Stabilization and Contingency Reserves) - A Reserve category capturing the Reserves established to provide uncommitted funds to stabilize the temporary impact of unforeseen, non-recurring, emergent, one-time expenditures, or losses of revenue to ensure service levels and to smooth future tax impacts.
- 5.2 Restricted Capital Reserves (Project Reserves) - A Reserve category capturing the Reserves that are established to fund capital projects.

#### 6. MANAGEMENT OF THE RESERVE FUNDS

- 6.1 Under the direction of Council, the CAO will ensure funds are invested according to the guidelines set out in the Town's Investment Policy and in accordance with provincial legislation.
- 6.2 Reserve Funds will be drawn down only under circumstances specific to the individual Reserve Fund.

#### 7. RESPONSIBILITIES

- 7.1 Only Council can approve the drawing down of a fund for operating or capital purposes.
- 7.2 The CAO will review the Reserves policies at least once every term of Council, or sooner if conditions warrant, and provide recommendations for Council approval.

7.3 Administration will provide Council with actual year end Reserve Fund balances, annually.

7.4 The CAO is responsible for the administration of the Town's Reserves by reviewing and recommending appropriate Reserve usage.

	DATE	RESOLUTION NUMBER
Approved	October 21, 2024	589-2024

Original Signed  
**Amy Cherniwchan**  
Mayor

Original Signed  
**Dawn Phillips**  
Chief Administrative Officer