

City of Melfort Policy Manual

<i>POLICY TITLE:</i> Reserve Policy	<i>POLICY NUMBER:</i> 1.3.50	<i>EFFECTIVE DATE:</i> January 1, 2007
<i>ORIGIN:</i> Finance Department	<i>ADOPTED BY COUNCIL ON:</i> June 12, 2006	<i>DATE AMENDED:</i> April 27, 2009 April 12, 2010 April 13, 2015 August 14, 2017

1. PURPOSE

The purpose of this policy is to establish strategic guidelines for the allocation to and the utilization of funds in reserves.

2. STATEMENT

Reserves may be utilized for the following reasons:

- 2.1 To fund planned capital programs and equipment purchases with their interest earnings.
- 2.2 To allow the City of Melfort to internally finance large projects.
- 2.3 To provide an economic advantage over other communities, specifically in the area of economic development.
- 2.4 To offset unanticipated operating deficits.

3. POLICY

- 3.1 The philosophy is to grow reserves at a reasonable inflation rate so that reserve-generated investment income provides the same level of purchasing power in the future. This is accomplished by aligning capital programs and expenditures with the previous year's actual investment income, adjusted using the five year average Canadian CPI.
- 3.2 To offer more flexibility in funding priority infrastructure replacement and to be less reliant on annual investment income, the transportation linear asset infrastructure replacement reserve and fleet replacement reserve have been established to be funded through mill rate increases.

- 3.3 To stabilize the varying nature of annual facility maintenance costs, the facility maintenance reserve was established to fund annual maintenance of building and mechanical equipment of City facilities and is funded through 50% of the annual surpluses.
- 3.4 When reserves are used for internally financing large projects, an interest repayment rate, less than the City of Melfort's external borrowing rate, will be established. It is recognized that borrowing funds on an interest free basis would require that the City curtail existing capital programs or fund a portion of the program through taxation.
- 3.5 Reserves provide the City of Melfort with the flexibility to distribute over several years the cost of expanding, improving or developing programs and/or services. It is recognized that a temporary drawdown in reserves may be approved by Council, if doing so gives the City of Melfort an economic advantage or is necessary to achieve one of Council's recorded strategic priorities. Any resolution or 5-year capital plan to drawdown reserves must clearly outline a method for replenishing the reserve (accessing grants and taxation being the main tools).
- 3.6 This policy is to be reviewed on an annual basis.

4. RESPONSIBILITIES

4.1 City Treasurer

- 4.1.1 Administers all reserves and funds.
- 4.1.2 Updates and administers this policy.
- 4.1.3 Provides City Council, annually during the budget process, with a five-year plan on the application of funds to and from all reserves.

4.2 City Council

- 4.2.1 Annually reviews and approves the application of funds to and from all reserves. The percentage of allocation to each reserve should be in line with the City's five-year capital plan and strategic long-term capital projects.
- 4.2.2 Reviews and approves any and all amendments to this policy.