

Financial Reserve Policy

Date Approved by Council: March 11, 2025

Resolution No.: 089/25

Mayor: "Original Signed"

Chief Administrative Officer: "Original Signed"

1. Purpose

This policy establishes consistent principles, standards, and guidelines for the creation, maintenance, management, and use of reserves established by Sturgeon County, including those required by legislation and those created at the discretion of Council.

2. Revision History

| <i>Approval Date</i> | <i>Revision Number</i> | <i>Modification</i> |
|----------------------|------------------------|------------------------|
| 2016/02/23 | 1.0 | New Document |
| 2016/04/26 | 1.1 | Grant Modification |
| 2018/11/27 | 1.2 | New Reserves |
| 2025/03/11 | 1.3 | New Title and Re-Write |

3. Persons/Areas Affected

Council
Chief Administrative Officer
County Administration

4. Definitions

The following definitions and interpretations apply to this policy:

Administration means the Chief Administrative Officer or the Chief Administrative Officer's delegates.

Committed means funds allocated to a reserve and authorized by Council for use in funding specific approved expenditures.

Council means the Council of Sturgeon County.

County means the Municipality of Sturgeon County.

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Chief Administrative Officer means the individual appointed as the chief administrative officer of the County by Council, including their delegate.

Designated means funds approved within a reserve for a specific purpose or future intent that have not received Council approval for use in funding expenditures and are generally unavailable to meet other funding obligations.

Emergency Management Reserve means a categorization applied to all reserves established for the purpose of mitigating the financial impact of unplanned emergency events, such as those related to climate, industry, municipal operations, or public safety.

Front-ended Reserve means a unique type of reserve which has a deficit balance due to the timing of anticipated future revenues that offset costs incurred during the completion of Council-approved projects.

Lifecycle and Capital Asset Management Reserve means a categorization applied to all reserves established for lifecycle refurbishment, replacement, or betterment of existing County-owned capital assets.

Pay-as-you-go Capital funding means a financial strategy where capital projects are funded directly from the current revenue base without the use of new borrowing.

Reserve means funds within accumulated surplus intended for a future purpose.

Restricted means rules or limitations imposed on the use of funds to ensure they are applied only to their intended purpose.

Special Purpose Reserve means a categorization applied to all unique reserves internally restricted by bylaws and policies, externally restricted by legislation or agreement, and all other Reserves that do not fit under other specific categories.

Target means the total balance of uncommitted or designated funds that the reserve should hold to achieve the purpose of the reserve.

Tax Stabilization Reserve means a categorization applied to reserves established for the purpose of stabilizing fluctuations arising from planned cyclical expenditures, mitigating the financial impact of one-time unforeseen or emergent operational events, revenue loss, and timing differences in cash flows.

Uncommitted means funds accumulated in reserves which have not yet been Designated or Committed to any specific purpose and are generally available for use or future allocation.

Utility Management Reserve means a categorization applied to reserves established for the purpose of stabilizing utility rates and preserving funds for the lifecycle management of water and wastewater assets.

5. Policy Statement

- 5.1. Sturgeon County recognizes that Reserves are a fundamental component of financial stewardship, supporting financial stability and sustainability while providing flexibility and capacity to respond to both opportunities and challenges.
- 5.2. Through proper reserve management, Sturgeon County is better positioned to mitigate financial risks, support long-term capital planning, stabilize tax rates, and facilitate strategic planning to achieve strategic priorities.

6. Categories and Attributes

- 6.1. All Reserve accounts are classified into one of the following categories based on the intended use.
 - Emergency Management
 - Lifecycle and Capital Asset Management
 - Tax Stabilization
 - Utility Management
 - Special Purpose
- 6.2. A schedule of all Sturgeon County's financial Reserves can be found in Appendix A of this policy and contains the following required reserve details:
 - name
 - category
 - application of funds
 - source of funds
 - target balance
 - interest entitlement
 - duration of the Reserve
 - references to external or internal use restrictions on use

7. Management and Administration

- 7.1. Establishment and Retirement
 - New Reserves will be considered where funds need to be held for a specific purpose.
 - Reserves are established by Council resolution, policy, or bylaw.
 - Reserves are retired by Council resolution, amendment or rescindment of the policy or repeal of the bylaw by which they were established.

7.2. Reserve Transactions

- Contributions to and withdrawals from Reserves must be authorized by Council through:
 - Approval of the annual budget,
 - Sturgeon County policies or bylaws,
 - The year-end approval process, or
 - Council resolution.

- Recommendations for changes to Reserve Designations and the transfer of funds between Reserve accounts will be brought for Council approval as part of the year-end approval process. Unless otherwise recommended, funds will be returned to the Uncommitted balance of the Reserve.

- Transfers to Reserve and withdrawals from Reserve that occur throughout the year will be presented to Council as part of the year-end approval process.

- Reserve funding for Council-approved capital projects will remain Committed until the funds are fully utilized in support of the project or are uncommitted through the year-end approval process or Council resolution.

- Committed Reserve funding for all other Council-approved projects will be transferred to the operating budget in the year of spending approval. Unspent funding for incomplete projects at year-end may be eligible for carry forward in accordance with the Operating Carry Forward Directive. Unspent funding for ineligible projects will be incorporated into the year-end financial operating results and deemed uncommitted to surplus.

- Reserve funding may be used as temporary internal financing for a Council-approved debt funded project until the borrowing is executed, and the Reserve is repaid.

- On an annual basis, interest will be applied to Reserves with an external requirement based on legislation or agreement, using the weighted average interest rate of Sturgeon County's general operating account.

8. Target Balances and Adjustments

- 8.1. Target balances for Reserves will be determined at the category level using both quantitative and qualitative risk-based assessment analyses.
- 8.2. Target balances may be established for individual Reserve accounts intended to hold a minimum amount of funding required to meet the needs of the programs they support. Reserve level target balances will be considered when establishing the category-level target balance.
- 8.3. Target balances will be reviewed periodically to ensure they appropriately reflect changes arising from inflationary and economic pressures, regulatory requirements, new risks or mitigations.
- 8.4. Recommendations for rebalancing Reserves will form part of the year-end approval process. Reserves with balances below target will receive priority consideration in the distribution of the annual operating surplus.

9. Reporting

- 9.1. Reserve balances shall be reported in Sturgeon County's financial reporting program and Sturgeon County's annual financial statements.

10. Responsibilities

- 10.1. Council is responsible for:
 - Approving amendments to the Reserve policy.
 - Approving the establishment and retirement of Reserves.
 - Approving Reserve transactions and balance redistributions, except for the transfer of interest to applicable reserves and transactions to and from the Carry Forward Reserve, which are managed by Administration.
- 10.2. Administration is responsible for:
 - Implementing and complying with this policy.
 - Reporting to Council on Reserves in accordance with this policy.
 - The transfer of funds between Uncommitted, Designated, and Committed Reserve balance in accordance with Council resolutions and approved budget authority.
 - Ensuring all reserve-related transactions abide by the Reserve conditions, restrictions, and with all applicable regulations and Legislation.

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- Managing Reserves in accordance with their conditions, Sturgeon County policies and procedures, Public Sector Accounting Standards, Legislation, and any other restrictions placed upon the Reserve by Council.

11. Review Period

11.1. This policy shall be reviewed on a periodic basis and amended as necessary. Administration has the authority to update Appendix A - Reserve Register based on Council approved policies, bylaws, and resolutions.

12. Attachments:

12.1. Appendix A – Reserve Register

Appendix A – Reserve Register

1. Emergency Management Category

Category Level Target Balance \$ 5,200,000

The Emergency Management Category encompasses all Reserves established to mitigate the financial impact of unplanned emergency events, specifically those related to climate, industry, municipal operations, or public safety.

Consistent with the Government Finance Officers Association best practices, the Emergency Management Category Target balance was determined using risk-based scoring for emergency events. This approach considers the likelihood and impact of events and utilizes the Sturgeon Regional Emergency Management Plan risk ratings.

Cost estimates, derived from historical data and comparative municipalities, were scaled to the financial impact scores identified in the Sturgeon Regional Emergency Management Plan. Considered in the Target balance are permanent, non-reimbursable expenditures, and cash flow timing contingencies for reimbursable costs that may take over one year to recover.

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| Name | Emergency Management Reserve |
| Category | Emergency Management |
| Application of Funds | To provide funding support for costs arising from emergency events related to climate, industry, municipal operations, or public safety. |
| Source of Funds | Budgeted transfers approved by Council. Allocation of year-end surpluses as approved by Council. Other sources approved by Council. |
| Target | \$5,200,000 |
| Interest Entitlement | No |
| Duration | Ongoing |
| Other Restrictions | None |

2. Lifecycle and Capital Asset Management Category

Category Level Target Balance \$ 23,000,000

The Lifecycle and Capital Asset Management Category encompasses all Reserves established to support the lifecycle management needs of existing County assets. These Reserves are a fundamental component of sustainable asset management and are used to supplement capital planning by stabilizing inconsistencies between Pay-as-you-go Capital funding and the timing of capital expenditures, based on the natural life and use of capital assets.

The Lifecycle and Capital Asset Management Category Target balance was determined based on an analysis of the 5-year capital financial plan, current asset inventories, and existing asset management and master plans. With several capital programs in early development, future asset management and master plans will be used to inform Target balances as these programs mature.

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| Name | Open Spaces Infrastructure Reserve |
| Category | Lifecycle and Capital Asset Management |
| Application of Funds | To provide funding for the refurbishment, replacement, or betterment of existing recreation and open space assets including playgrounds, parks, and trails. |
| Source of Funds | <p>Budgeted transfers approved by Council.</p> <p>Allocation of year-end surpluses as approved by Council.</p> <p>Proceeds from the sale of community infrastructure assets.</p> <p>Pay-as-you-go Capital funding contributed from municipal operations Committed to Council-approved capital community infrastructure projects.</p> <p>Other sources approved by Council.</p> |
| Target | Align to the Open Space capital lifecycle planning needs. |
| Interest Entitlement | No |
| Duration | Ongoing |
| Other Restrictions | None |

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| Name | Facility Reserve |
| Category | Lifecycle and Capital Asset Management |
| Application of Funds | To provide funding for the refurbishment, replacement, or betterment of existing County facility assets and their components. |
| Source of Funds | <p>Budgeted transfers approved by Council.</p> <p>Allocation of year-end surpluses as approved by Council.</p> <p>Proceeds from the sale of facility assets and their components.</p> <p>Pay-as-you-go Capital funding contributed from municipal operations Committed to Council-approved capital facility projects.</p> <p>Other sources approved by Council.</p> |
| Target | \$1,500,000 |
| Interest Entitlement | No |
| Duration | Ongoing |
| Other Restrictions | None |

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|----------------------|---|
| Name | Information Technology Reserve |
| Category | Lifecycle and Capital Asset Management |
| Application of Funds | To provide funding for the refurbishment, replacement, or betterment of existing information technology assets including hardware, software, and network infrastructure. |
| Source of Funds | <p>Budgeted transfers approved by Council.</p> <p>Allocation of year-end surpluses approved by Council.</p> <p>Proceeds from the sale of information technology assets.</p> <p>Pay-as-you-go Capital funding contributed from municipal operations Committed to Council-approved capital information technology projects.</p> <p>Other sources approved by Council.</p> |
| Target | \$500,000 |
| Interest Entitlement | No |

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| Duration | Ongoing |
| Other Restrictions | None |

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| Name | Machinery & Equipment Reserve |
| Category | Lifecycle and Capital Asset Management |
| Application of Funds | To provide funding for the refurbishment, replacement, or significant emergency repair of existing machinery, mobile and miscellaneous non-mobile equipment, and vehicles. |
| Source of Funds | <p>Budgeted transfers approved by Council.</p> <p>Allocation of year-end surpluses as approved by Council.</p> <p>Proceeds from the sale of machinery and equipment assets.</p> <p>Pay-as-you-go Capital funding contributed from municipal operations Committed to Council-approved capital machinery and equipment projects.</p> <p>Other sources approved by Council.</p> |
| Target | \$5,800,000 |
| Interest Entitlement | No |
| Duration | Ongoing |
| Other Restrictions | None |

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|----------------------|--|
| Name | Municipal Infrastructure Reserve |
| Category | Lifecycle and Capital Asset Management |
| Application of Funds | To provide funding for the enhancement, replacement, or significant repair of existing municipal infrastructure assets including roads, bridges, storm ponds, and drainage systems as well as for the financing and debt servicing of front-ended offsite levy funded infrastructure assets. |
| Source of Funds | <p>Budgeted transfers approved by Council.</p> <p>Allocation of year-end surpluses as approved by Council.</p> <p>Proceeds from the sale of infrastructure and road closure-related land assets.</p> |

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| | <p>Pay-as-you-go Capital Funding contributed from municipal operations Committed to Council-approved capital municipal infrastructure projects.</p> <p>Offsite transportation infrastructure recovery entitlements recognized in Front-ended Offsite Levy Reserves in accordance with offsite levy bylaws.</p> <p>Other sources approved by Council.</p> |
| Target | \$23,000,000 |
| Interest Entitlement | No |
| Duration | Ongoing |
| Other Restrictions | None |

3. Tax Stabilization Category

Category Level Target Balance \$ 18,400,000

The Tax Stabilization Category encompasses all Reserves established to reduce tax rate volatility by stabilizing cost fluctuations from planned cyclical expenditures and mitigating the financial impact of unforeseen or emergent operational events, revenue loss, and timing differences in cash flows.

Significant consideration was given to the sustainability of these Reserves after factoring in the impact of assessment depreciation models and the tax revenue concentration risk exposure specific to Sturgeon County. This, along with future strategic, service enhancement, and cyclical operating expenditure funding needs, forms the basis for the Tax Stabilization Category target Balance.

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| Name | Adaptive Capital Reserve |
| Category | Tax Stabilization |
| Application of Funds | To provide funding for capital enhancements proposed by Council during the annual budget process. |
| Source of Funds | <p>Budgeted transfers approved by Council.</p> <p>Pay-as-you-go Capital funding contributed from municipal operations unallocated in the approved capital budget.</p> <p>Allocation of year-end surpluses as approved by Council.</p> |

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| | Other sources approved by Council. |
| Target | \$ 5,400,000 |
| Interest Entitlement | No |
| Duration | Ongoing |
| Other Restrictions | None |

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|----------------------|---|
| Name | Municipal Carry Forward Reserve |
| Category | Tax Stabilization |
| Application of Funds | To preserve unspent funds for specific Council-approved operating projects and non-permanent full-time equivalency contracts not completed by the calendar year-end that will be completed in the subsequent calendar year. |
| Source of Funds | Year-end transfer to Reserve. |
| Target | None |
| Interest Entitlement | No |
| Duration | Closes annually |
| Other Restrictions | Operating Budget Carry Forwards Directive (DIR_FIN_Operating_Budget_Carry_Forwards_2020) Full-time Equivalency (FTE) Administration Directive (dir_Full-time Equivalency (FTE) Management) |

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|----------------------|--|
| Name | Municipal Tax Stabilization Reserve |
| Category | Tax Stabilization |
| Application of Funds | To provide funding for stabilizing fluctuations arising from planned cyclical expenditures, unforeseen or emergent operational events, revenue loss, and timing differences in cash flows. |
| Source of Funds | Budgeted transfers approved by Council. Allocation of year-end surpluses as approved by Council. Other sources approved by Council. |

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| Target | \$13,000,000 |
| Interest Entitlement | No |
| Duration | Ongoing |
| Other Restrictions | None |

4. Utility Management Category

Category Level Target Balance (In development)

The Utility Management Category encompasses all Reserves established for the purpose of supporting the asset lifecycle planning and annual operating needs of the water and wastewater utility program.

These Reserves help stabilize utility rates by reducing cost fluctuations that arise from planned cyclical events and mitigate the impact of emergent and emergency operational events, revenue loss, and timing differences in cash flows.

Additionally, these Reserves promote sustainable long-term utility rate setting decisions by balancing asset replacement funding needs with the timing of capital expenditures, based on the natural life and use of capital assets.

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|----------------------|---|
| Name | Utility Carry Forward Reserve |
| Category | Utility Management |
| Application of Funds | To preserve unspent funds for specific Council-approved utility operating projects and non-permanent full-time equivalency contracts not completed by the calendar year-end that will be completed in the subsequent calendar year. |
| Source of Funds | Year-end transfer to Reserve. |
| Target | None |
| Interest Entitlement | No |
| Duration | Closes annually |
| Other Restrictions | Operating Budget Carry Forwards Directive (DIR_FIN_Operating_Budget_Carry_Forwards_2020) Full-time Equivalency (FTE) Administration Directive (dir_Full-time Equivalency (FTE) Management) |

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| Name | Utility Infrastructure Reserve |
| Category | Utility Management |
| Application of Funds | To provide funding for the development, enhancement, replacement, or significant repair of water and wastewater utility infrastructure assets as well as for the financing and debt servicing of front-ended offsite levy funded utility infrastructure assets. |
| Source of Funds | <p>Budgeted transfers approved by Council.</p> <p>Allocation of year-end utility operating surpluses as approved by Council.</p> <p>Proceeds from the sale of utility infrastructure and utility-related land assets.</p> <p>Pay-as-you-go Capital Funding contributed from utility operations Committed to Council-approved capital utility infrastructure projects.</p> <p>Offsite water and wastewater infrastructure recovery entitlements recognized in Front-ended Offsite Levy Reserves in accordance with offsite levy bylaws.</p> <p>Other sources approved by Council.</p> |
| Target | Align to water and wastewater utility infrastructure lifecycle planning needs. |
| Interest Entitlement | Yes |
| Duration | Ongoing |
| Other Restrictions | None |

| | |
|----------------------|--|
| Name | Utility Rate Stabilization Reserve |
| Category | Utility Management |
| Application of Funds | To provide for utility rate stabilization in the event of unforeseen and non-recurrent emergent or emergency events, revenue losses, and any operational deficits in utility operations arising from these events. |
| Source of Funds | <p>Budgeted transfers approved by Council.</p> <p>Year-end surpluses from utility operations.</p> |

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| | Funds uncommitted from the Utility Carry Forward Reserve. |
| Target | \$500,000 |
| Interest Entitlement | Yes |
| Duration | Ongoing |
| Other Restrictions | None |

5. Municipal Reserves – Special Purpose

Category Level Target Balance – Designated fund balance

The Special Purpose Category includes all Reserves created for designated purposes as defined by Council resolution, policy, bylaw, legislation, contract, or agreement, as well as all Reserves that do not fit into another category.

Unless specified in the Council resolution or governing documents, most Special Purpose Reserves do not have a Target balance. For reporting purposes, the Target balance for the Special Purpose Category is equal to the Designated balance.

| | |
|----------------------|---|
| Name | Community Enhancement Reserve |
| Category | Special Purpose |
| Application of Funds | To provide funding for grants supporting non-profit community organizations in accordance with the Community Grant Policy. |
| Source of Funds | Transfers to Reserve from Community Aggregate Levy collections from the Calahoo-Villeneuve Sand and Gravel Area Structure Plan in accordance with the Community Grant Policy. |
| Target | None |
| Interest Entitlement | No |
| Duration | Ongoing |
| Other Restrictions | Community Grant Policy (ply_ADM_Community_Grant_Policy) Community Aggregate Payment Levy Bylaw (Bylaw 1400/18) |

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|----------------------|--|
| Name | Heartland Infrastructure Attraction Reserve |
| Category | Special Purpose |
| Application of Funds | To provide funding for infrastructure initiatives or projects that support growth and development within the Alberta Industrial Heartland. |
| Source of Funds | Budgeted transfers approved by Council. Allocation of year-end surpluses as approved by Council. Other sources approved by Council. |
| Target | None |
| Interest Entitlement | No |
| Duration | Ongoing |
| Other Restrictions | None |

| | |
|----------------------|--|
| Name | Municipal Park Trust |
| Category | Special Purpose |
| Application of Funds | To provide funding for the development or enhancement of public parks and public recreation areas. |
| Source of Funds | Money provided by developers in place of municipal reserve lands or proceeds from the disposal of municipal reserve lands on the removal of the reserve designation in accordance with the Municipal Government Act. |
| Target | None |
| Interest Entitlement | Yes |
| Duration | Ongoing |
| Other Restrictions | Municipal Government Act, RSA 2000, c M-26, s 671 |

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|----------------------|---|
| Name | Community & Municipal Recreation Reserve |
| Category | Special Purpose |
| Application of Funds | To provide funding support for the development, substantial refurbishment, renewal, or replacement of regional recreation amenities and recreation-related capital projects initiated by or |

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| | planned in partnership with other regional municipalities or community partners. |
| Source of Funds | Budgeted transfers approved by Council. Other sources approved by Council. |
| Target | None |
| Interest Entitlement | No |
| Duration | Ongoing |
| Other Restrictions | None |

| | |
|----------------------|---|
| Name | Offsite Levy Recreation Investment Reserve |
| Category | Special Purpose |
| Application of Funds | To provide funding for recreation initiatives in the areas specified in the off-site levy agreements the voluntary levies were collected under. |
| Source of Funds | Voluntary off-site recreation levy contributions. |
| Target | None |
| Interest Entitlement | No |
| Duration | Open until remaining funds are depleted. |
| Other Restrictions | None |

| | |
|----------------------|---|
| Name | Operating Special Purpose Reserve |
| Category | Special Purpose |
| Application of Funds | To preserve funding for obligations established in relation to various external contracts and agreements. |
| Source of Funds | Transfers to Reserves in accordance with established contracts or agreements. Other sources approved by Council. |
| Target | Specific to each contract or agreement. |
| Interest Entitlement | If required by contract or agreement. |

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| Duration | Ongoing |
| Other Restrictions | Specific to each contract or agreement. |

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|----------------------|---|
| Name | Sturgeon Industrial Community Reserve |
| Category | Special Purpose |
| Application of Funds | To provide funding for grants supporting non-profit community organizations in accordance with the Community Grant Policy. |
| Source of Funds | Transfers to Reserve from Community Aggregate Levy collections from the Alberta Industrial Heartland Area Structure Plan in accordance with the Community Grant Policy. |
| Target | None |
| Interest Entitlement | No |
| Duration | Ongoing |
| Other Restrictions | Community Grant Policy (ply_ADM_Community_Grant_Policy) Community Aggregate Payment Levy Bylaw (Bylaw 1400/18) |

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|----------------------|---|
| Name | Subdivision Road Improvement Reserve |
| Category | Special Purpose |
| Application of Funds | To provide funding for dust suppression treatment and other costs incurred in improving internal roads within the area outlined in specific development agreements. |
| Source of Funds | Direct collection from developer agreements. |
| Target | None |
| Interest Entitlement | No |
| Duration | Open until remaining funds are depleted. |
| Other Restrictions | None |