



## REQUEST FOR DECISION

**MEETING DATE:** December 2, 2024

**TITLE:** CP-1060-24 - Reserves and Accumulated Surplus Policy

**DIVISION:** Corporate Services

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### **SUMMARY:**

CP-1060-24 - Reserves and Accumulated Surplus Policy is presented for Council's approval. This policy will rescind Policy CP-1034-21 - Reserves and Accumulated Surplus and will allow for the dedication of reserves within the City's Accumulated Surplus to provide transparency for funding lifecycle costs and other City priorities.

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### **PROPOSED MOTION:**

THAT CP-1060-24 - Reserves and Accumulated Surplus Policy be approved as presented.

THAT the transfer of \$27,296,723 from Unrestricted Surplus to Restricted Reserves, as presented in the Reserves Continuity Schedule, be approved.

### **BACKGROUND / ANALYSIS:**

As part of the strategic goals and associated action items that have been identified in Council's Strategic Plan 2022 - 2025, Goal 12 "City Council demonstrates governance excellence through leadership and setting clear direction.", encompasses action 12.d.1 "Develop a fiscal stewardship framework that maximizes efficiency in the use of taxpayers' dollar and implements best practices and controls for effective management and transparent reporting."

Under this goal, the City of Spruce Grove must have the financial capability to meet the current needs of the community at acceptable levels of taxation, without compromising the ability of future generations to meet their own needs. This capability is referred to as fiscal sustainability.

Achieving financial sustainability requires support from comprehensive policies, practices, and principles that will guide all financial decision-making in the organization and will collectively be referred to as the Fiscal Stewardship Framework.

This Request for Decision includes the Reserves and Accumulated Surplus Policy, which is the second policy to be brought forward to Council under the umbrella of the Fiscal Stewardship Framework. The first policy was the Investment Policy that Council approved in March 2024.

Since 2021, the City has been on a journey to establish restricted reserves. Council approved a Reserves and Accumulated Surplus Policy in 2021 that established the initial framework for the restricted reserves structure. Through subsequent Corporate Plans, Council has approved implementation of a dedicated revenue stream for infrastructure renewal, lifecycle reserves, and funding for future capital requirements. Asset management, corporate planning, and the long-term capital planning process has continued to develop and mature to support the management of existing reserves and establishment of new reserves.

The commitment of funds to restricted reserves provides for property tax stabilization, emerging project funding, and may reduce the need for debt financing. Related policy and guidelines ensure consistent and effective management of restricted reserve funds. The Reserves and Accumulated Surplus Policy outlines the scope, target balance, and funding source for each restricted reserve account held by the City. It also provides the authority for the use of the reserve funds.

Administration has undertaken a detailed analysis of reserves and is now bringing forward a policy update and recommended changes for Council approval.

This review focused on:

- updating the policy for changes made throughout the years (legacy, utility, and developer deficits);
- reformulating optimal reserve balances;
- reviewing the current categories to maximize transparency and eliminate redundancy;
- clarifying roles and responsibilities in alignment with prudent fiscal management;
- removed externally restricted reserves as they are not considered reserves from an accounting perspective; and
- excess restricted surplus allocation process.

The reserves have been categorized in several sections and the reserve types are reflected as noted below in the policy:

*Municipal Stabilization and Contingency Reserves* - this category houses reserves that are intended to soften annual impacts of ongoing standing items like elections or swings in areas

that are outside of Administration's control. For example, a major snow event can have a significant budget impact which may be mitigated by utilizing the snow and ice control reserves.

*Project Reserves* - These are intended to allow smooth transition of workplans related to operating and capital projects from one year to another under circumstances that didn't allow for completion of the projects.

*Municipal Lifecycle: Repair, Maintenance and Replacement Reserves Life Cycle Plans* - This category is intended to allocate funding for City's existing infrastructure and assets to address ongoing needs are met without impacting taxes in a given year.

*Specific Purpose Reserves* - These reserves are intended for special purposes as defined in the policy. New reserves may be added to reflect upcoming projects / needs.

*Utility Reserves* - These reserves are intended for utility services streams and are intended to sustain City's existing utility infrastructure and assets.

*Externally Restricted Reserves* - This section has been removed as they are not in fact Restricted Reserves, rather they reflect the City's front ending of developer infrastructure.

### **OPTIONS / ALTERNATIVES:**

Council could choose not to approve the Reserves and Accumulated Surplus Policy, or it could recommend additional amendments to the policy.

### **CONSULTATION / ENGAGEMENT:**

Administration has engaged with Council on this policy since 2021 and throughout the Corporate Plan process. Finance reviews its policies for alignment with operating procedures and practices, and for alignment with the fiscal stewardship framework.

### **IMPLEMENTATION / COMMUNICATION:**

Restricted reserves will be established within the City's financial system and in the City's financial reporting to Council. Reporting to Council regarding reserve balances, contributions, and withdrawals will be included in the annual audited financial statements and as part of the corporate planning compliance with the proposed policy.

**IMPACTS:**

The proposed Reserves and Accumulated Surplus Policy will ensure that prudent financial management practices are applied to maintain long term fiscal sustainability and fiscal stewardship of City funds.

**FINANCIAL IMPLICATIONS:**

As of December 31, 2023, the City had a total unrestricted surplus balance of \$28,105,893. If Council approves the requested reserves transfers, the updated reserve balances as of January 1, 2024 will be as outlined below and detailed in the Reserves Continuity Schedule:

Stabilization and Contingency Reserves - \$2,028,405

Project Reserves - \$6,554,251

Municipal Lifecycle: Repair, Maintenance and Replacement Reserves - \$10,215,961

Specific Purpose Reserves - \$8,498,106

Utility Reserves - \$7,497,731

Unrestricted Accumulated Surplus - \$809,171