

	POLICY	Owner Department: Corporate Services
	Reserves Management Policy	
Effective Date: April 30, 2024	Last Reviewed Date:	
Approving Authority: MDSS Council	Replaces No.: NEW	
1. Purpose Statement		

A Reserves Policy is required to establish, maintain, and manage reserve funds that:

1. provide for unanticipated fluctuations in operating and capital activities;
2. set aside funds for the replacement of existing equipment and facilities, as well as for future projects;
3. provide for future operating and capital requirements.

The purpose of this policy is to establish consistent standards and guidelines for the establishment and management of reserves.

2. Policy

Reserves are a crucial consideration in long-term financial planning and good financial management. The [Government Financial Officers of America](#) (GFOA) states that it is essential that governments maintain adequate levels of fund balances to mitigate current and future risks (e.g. revenue shortfalls and unanticipated expenditures) and to maintain a stable tax rate. It is recommended that reserves never be used to pay for ongoing expenses as this would indicate a structural deficit position, which then eliminates the financial protection required by a government.

To meet the objectives of this policy, a commitment of funds dedicated to specific reserves will be recommended on an annual basis. The annual budget document to be approved by Council shall include separate documents for reserves and their accounts and provide estimated additions and uses for the budget period.

3. Benefits

The municipality's objectives in terms of its various reserves are set out in this Policy. By reaching a clear understanding of its reserve objectives, and by continually measuring progress towards achieving those objectives, the municipality can attain greater long-term fiscal stability and prosperity and maintain a stable tax rate.

Reserves provide stability and protection to a municipality in terms of unusual or unexpected events, unforeseen economic impacts and are used as a tool to fund major capital projects.

4. Authority

The establishment of, contributions to, and withdrawals from an operating or capital reserve shall be approved by Council through resolution or by-law in accordance with the [Local Governance Act](#) and/or the [Community Planning Act](#) as applicable.

5. Legal and Regulatory Constraints

Section 101 of the [Local Governance Act](#) of New Brunswick confers power on Council to create a:

1. General Operating Reserve Fund - This fund balance cannot exceed 5% of the previous year's total general operating budgeted expenditure and it can only be used towards general operating expenses.
2. General Capital Reserve Fund - This fund balance can solely be used for General Fund capital expenses incurred by the municipality.

Section 117(7) of the [Local Governance Act](#) of New Brunswick confers power on Council to create a:

1. Utility Operating Reserve Fund - This fund balance cannot exceed 5% of the previous year's total utility operating budgeted expenditure and it can only be used towards general operating expenses of the service or utility.
2. Utility Capital Reserve Fund - This fund balance can solely be used for Utility Fund capital expenses incurred by the municipality.

These are the only reserves the Province of New Brunswick will authorize.

Under the [Community Planning Act](#), there is a statutory requirement to establish and maintain a special account for the purchase and sale of all lands held for public purposes.

1. Public Land Account - This fund balance can solely be used to acquire and develop land held for public purposes.

6. Accounts within the Reserve Funds

To further manage the funds within these Reserves, specific accounts have been created to aid the municipality in achieving financial strength and flexibility, as well as improve cash flow management.

This policy makes the distinction between these internal accounts, which are managed and reported within these reserves and the actual reserve funds themselves.

1. General Operating Reserve Fund

a. **Stabilization Account**

Purpose: The municipality is exposed to non-recurring costs related to various emergency events or situations: e.g. inclement weather, pandemic. These emergent situations cannot be anticipated and budgeted; consequently, it is not always feasible to absorb the cost of such events in other budget areas in any given year. This account can be used to mitigate the impacts of these events.

GFOA indicates that the unrestricted fund balance in the general fund should take into account each government's own circumstances. Items that should be considered include, but are not limited to, weather events, volatile revenue sources, and cuts in provincial or federal funding. Nevertheless, GFOA recommends, at a minimum, that governments maintain no less than two months of general fund operating expenditures. For the Municipal District of St. Stephen, that would mean close to 17% of the annual budget, which represents \$2.4 million of a \$14 million budget.

In New Brunswick, since this fund balance cannot exceed 5% of previous year's budgeted expenditures, which is significantly lower than best practice, the Municipal District will seek to maximize this fund on an annual basis.

b. **Specific Purpose or One-time Account**

Purpose: The municipality occasionally undertakes specific purpose or one-time projects that have significant operating costs. If these projects were funded from property taxation, annual spikes and subsequent declines in taxation would result; therefore, it is not prudent to fund these projects from ongoing property taxation revenue (e.g. a large-scale event). This reserve can also be used when there is an unanticipated delay to an approved budgeted item that cannot be completed within its budget year.

2. General Capital Reserve Fund

Well-designed capital reserve policies support proactive financial management given the many demands on a government's resources. A well-established policy will help the municipality to manage its substantial investments in capital improvements and provide the municipality with a strategic tool to use and optimize asset repair and replacement.

Most governments around the world have an infrastructure deficit and the Municipal District of St. Stephen is no different. Maintaining strong capital reserves is essential in protecting long-term financial sustainability and will serve as the main tool to ensure the municipality is able to support an acceptable level of debt in its operations.

a. Facilities Deferred Maintenance Account

Purpose: To fund deferred maintenance for existing facility infrastructure.

(e.g. Carpeting, repairs to shingles, floor tiles, and painting repairs).

b. Fleet (Lifecycle) Account

Purpose: To fund, based on lifecycle analysis, the replacement of municipal vehicles and equipment included in the municipal fleet.

(e.g. includes the purchase of all municipally-owned vehicles).

c. Unrestricted General Capital Project Account

Purpose: To fund future capital projects not specifically identified or funded from other established accounts. This reserve provides financial sustainability protection for project overages and to cover unanticipated costs. It can provide flexibility to the municipality in a rising interest rate environment or even cover shortfalls in projected “other government funding”. Lastly, it can also be used for strategic purposes.

d. Capital Replacement (Lifecycle) Account

Purpose: To fund future betterments and replacements of existing facility infrastructure. A required contribution should be established through a Capital Maintenance Policy for recent infrastructure acquisitions on an asset-by-asset basis. There is an additional expectation that a blanket annual contribution should be made for infrastructure that existed before the policy was established.

(e.g. contribution on asset-by-asset basis for Oak Bay Fire Station, and a general contribution to cover such assets as 199 Union Street).

e. Major Capital Project Account(s)

Purpose: To fund or partially fund large construction projects that have been designated as being major capital priorities by Council.

(e.g. new fire station, new Council Chambers)

3. Utility Operating Reserve Fund

a. **Financial Stabilization Account**

Purpose: The municipality is exposed to non-recurring costs related to various water operating emergency situations (e.g. high volume of water main breaks). These situations cannot be anticipated and budgeted; consequently, it is not desirable to make major water rate adjustments to absorb the cost of such events.

4. Utility Capital Reserve Fund

a. **Water General Capital Account**

Purpose: To provide funds for the expansion, refurbishment, or replacement of the municipality's utility infrastructure including water treatment, water conveyance and storage projects, water distribution system projects, and water equipment.

(e.g. funding to cover project overages of unanticipated costs - items out of scope of original project - such as water main construction, water treatment plant contributions, and construction of water storage facilities)

b. **Wastewater General Capital Account**

Purpose: To provide funds for the expansion, refurbishment, or replacement of the municipality's wastewater infrastructure and equipment.

(e.g. funding to cover project overages of unanticipated costs - items out of scope of original project - such as construction of sewer mains or sewer lift stations)

c. **Meter & Meter Transmitting Unit Replacement Account**

Purpose: To provide funds for the scheduled replacement of existing meter equipment. This account will permit the municipality to remain current with technological improvements.

(e.g. major overhaul in residential metering system)

5. Public Land Account:

Per the *Community Planning Act*, section 43(2), funds received from the sale of land held for public purposes or cash in lieu from developers are to be paid into a special account, and the money in that account is to be used by Council to acquire or develop land for public purposes.

7. Administration of Reserves

Reserve Account Contributions

Annual contributions to reserves shall be specific to each account within a given reserve as approved by Council through the annual budgeting process. Periodically, the Treasurer may recommend appropriations to/from reserves to Council for their consideration and approval, to further contribute to improving long-term financial planning and good financial management.

Reserve Account Withdrawals

All withdrawals from reserves shall be specific to each account within a reserve and must be approved through a Council Resolution. Withdrawals from accounts within a reserve must not exceed the account reserve fund balance.

Responsibilities

The Treasurer shall be responsible for:

- a. recommending the necessary contributions and transfers so that the Accounts within the Reserve Funds are maintained in accordance with this policy;
- b. conducting an annual review of all designated accounts within the reserve funds; and
- c. recommending any revisions or amendments to this Policy, as a result of changes in applicable statutes, accounting standards, economic conditions, etc.

Interest

Any interest earned on reserves shall be proportionally allocated to each account within the reserve.

Closing Accounts within Reserves Funds

If the purpose or purposes for which the accounts within a reserve fund was created have been accomplished or the accounts within a reserve funds are determined to be no longer necessary, the Treasurer shall report to the Senior Management Team and Council with a recommendation on both the closure of the accounts within a reserve and the change of intended use of these remaining funds within the reserve.

Per the [Local Governance Act](#), no funds can be transferred between reserve funds. Therefore, upon the abolishment of a selected account within a reserve, the funds must be applied to another account within the same reserve fund.

New Accounts with Reserve Funds

Departments may submit a report that recommends the establishment of a new account within a reserve which must be signed by the Treasurer and the Chief Administrative Officer and include the following: statement of purpose, funding source, and rationale for establishing funding level. This recommended addition would then be brought forth at the next annual budget deliberation for approval by Council.

8. Administration and Contact

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