

DRAFT Motion for a Policy on the Establishment and Management of Organized Hamlet of Crystal Lake Reserve Funds

DRAFT Motion: “That the Organized Hamlet of Crystal Lake adopt the proposed Policy on the Establishment and Management of Reserve Funds”

Purpose: To establish clear direction and support to the Hamlet Board and RM Council/Administrator from the ratepayers of the OH of Crystal Lake for the establishment and management of Reserve Funds.

Background/Rationale:

From time to time there are major investments desired and or needed to 1) replace, repair or initiate major projects or 2) to cover unexpected drops in revenue or increases in operating expenses in any given year. The establishment of Reserve Funds is to anticipate and prepare for major projects or financial shortcomings. Such Reserve Funds lessen the burden of special levies for major projects or protect against property tax increases when revenue falls below annual expenses for unforeseen situations.

There are four proposed Reserve Funds, three of which are currently in existence. The three proposed Reserve Funds are:

1. General, Unallocated Reserve Fund
2. Road Reserve Fund
3. Capital Projects Fund
4. Community Water Reserve Fund

Policy on the Establishment and Management of Organized Hamlet of Crystal Lake Reserve Funds

Purpose of Reserve Funds: Reserve Funds allow communities for advance planning to finance major projects or to protect against financial burdens (i.e. tax increases) from drastic reductions in revenue or increases in operating expenses. The International Association of Financial Officers (a North American organization of financial officers of public institutions) supports the concepts of reserve funds and makes recommendations for the use and amount to be held in various

reserve funds. The amount held in a specific reserve fund varies with the purpose, timelines and vulnerabilities to unexpected drops in revenue and increases in expenditures. As a resort/retirement community, in a reasonably stable economic and political country and province, Crystal Lake is in a fairly stable financial situation.

Organized Hamlet of Crystal Lake Reserve Funds: The OH of Crystal Lake has or will establish the following four Reserve Funds, each with its specific purpose and management protocol. The four Reserve Funds are:

1. General, Unallocated Reserve Fund
2. Road Reserve Fund
3. Capital Projects Fund
4. Community Water Reserve Fund

1. **General, Unallocated Reserve Fund** – The purpose of this Fund is to maintain unallocated funds in a reserve account to manage unexpected reductions in revenues or drastic increases in expenses. This will protect against unplanned tax increases or draws from other reserve funds. The amount to be held in this Reserve Fund is to be a minimum of 50% of the annual operating budget. Once established at the 50% level, future contributions to this reserve will be from any surplus from annual operating costs. The amount will vary based on annual revenues and expenses. There is only to be a draw from this reserve to address significant and extenuating conditions such as drastic loss of revenue or unexpected and unanticipated expenses beyond normal operations. Once the 50% level is achieved and maintained, any annual operating surpluses can be allocated to the other reserve funds. This reserve fund will be kept in short-term, relatively liquid investments to maintain easy access if required on short notice. This Fund will be the priority Fund for contributions to maintain the 50% of annual expenses. The Reserve Fund can be accessed up to \$10,000 by motion passed at a Hamlet Board meeting.
2. **Road Reserve Fund** – The purpose is to build up a reserve fund for repairs, replacement or new/additional road work. No specific target is set for annual contributions; every effort will be made to contribute a minimum of 5% of the annual operating budget to more or less equate to depreciation of the road. This reserve fund can be placed in longer-term investments as

it is not expected to be accessed in the near future. The Road Reserve Fund can only be accessed by motion passed at the Annual General Meeting.

3. **Capital Projects Reserve Fund** – The purpose is to build up funds to be able to undertake new capital projects (facilities, major equipment) without having to apply levies or to reduce the amount of such new levies for capital projects. No specific target is set for annual contributions; every effort will be made to contribute a minimum of 3% of the annual operating budget. This account can be maintained in a combination of shorter and longer-term investments to ensure a limited access on short notice opportunities. The Capital Projects Reserve Fund can only be accessed by motion passed at the Annual General Meeting.
4. **Community Water System Reserve Fund** – The purpose is to build up and maintain a minimum of one year's operating revenue. This reserve fund is not part of the Hamlet reserve funds as it is specific to the subscribers to the community water system. This reserve fund is built up through accumulated surpluses of the community water system's annual revenue over annual expenses. It can only be drawn upon for unexpected drops in revenue or unexpected increases of expenses. Once fully established at the one year's operating expense base, if drawn upon, the goal will be to be fully replaced via increases in revenues (fees) in a minimum of 3 years. In addition to being built up when annual revenues exceed expenses, this system must additionally account for depreciation of capital equipment (replacement of distribution lines, pumps and treatment equipment) to build the surplus beyond one year's operating surplus. This fund must be maintained in shorter term investments to ensure liquidity to address any major, unforeseen expenses and capital purchases, repairs and replacement. Minor draws, up to \$10,000, from the Community Water Reserve Fund can be made by motion passed at a Hamlet Board meeting. Draws exceeding \$10,000 require an official level of support (can be via electronic voting) from the water system subscribers.

Annual Reporting of Reserve Fund Status: As part of the annual OH of Crystal Lake Financial Report, the amounts of contributions, draws and balances will be reported.