POLICY #217C
4512 – 46 Street, Olds, AB Canada T4H 1R5
T 403-556-6981 F 403-559-6537
www.olds.ca

Policy Title:	**Reserves Policy**
Policy Number:	**217C**
Approval:	**Town Council**
Review Date:	**November 9, 2026, Motion 2026-312**
Review Date:	**July 14, 2025, Motion 25-220**
Approved Date:	**March 11, 2019, Motion 19-78**
Supersedes Policy No.:	**New**

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1. Policy Statement

The Town of Olds (the "Town") recognizes that sustainability will be enhanced by maintaining both capital infrastructure assets and financial assets over the long term. The reserves practices will address the longer-term funding strategies of the Town and ensure good financial and cash management for the overall financial stability of the Town. Maintaining sufficient balances in reserves and reserve funds is a critical component of a municipality's long-term financial plan as it strengthens its long-term financial sustainability, helps to minimize fluctuations in the tax rate and provides funding to sustain infrastructure.

2. Purpose

The purpose of the Reserves Policy is to establish guidelines, limits, and conditions applicable to the segregation of the Town's accumulated surplus, referred to as restricted surplus, into reserve funds which will enhance the Town's financial strength, flexibility and cash flow management as well as to help sustain infrastructure needs at an adequate level to ensure delivery of services and support the Town's Strategic Plan.

3. Scope

The Reserves Policy applies to all departments.

4. Definitions

Amortization means a non-cash expense to operations representing a portion of the useful life of a recorded tangible capital asset (TCA). It is a process of cost allocation and not valuation. Amortization increases expenses but does not reduce cash.

Capital Reserves means the portion of unrestricted net assets that Council has designated (or 'Restricted') to acquire or construct new Capital assets and replace and rehabilitate major Capital infrastructure as required.

Operating Reserves means the portion of unrestricted net assets that Council has designated (or 'Restricted') for use in emergencies to sustain financial operations for a reasonable period in the event of significant and unanticipated, unbudgeted increases and/or losses in operating revenues.

Own-source revenue (OSR) is the money the Town generates internally rather than receiving through external grants or government transfers. It includes local property taxes, business venture profits, commercial leasing, and service fees.

Restricted means a reserve (Operating or Capital) of money that can only be used for specific purposes.

5. Responsibilities

(a) Council:

i) Approve by resolution this policy and any amendments

ii) Approve all reserve transfers, redesignations, revisions, formation and dissolution. Approval may be in the form of:

1) The annual operating and capital budget approval;
2) Council resolution

(b) Chief Administrative Officer (the "CAO"):

i) Ensure implementation of this policy

ii) Ensure this policy is reviewed with every term of Council

iii) Ensure funds are invested according to the guidelines set out in the investment policy and in accordance with provincial legislation

iv) Reserve funds will be drawn down under circumstances specific to the individual reserve fund

(c) Director of Corporate Services:

i) Ensure implementation of this policy

ii) Ensure this policy is reviewed with every term of Council

iii) Make recommendations to the CAO of necessary policy or procedure amendments

iv) Annually provide Council with:

1) Actual year end reserve balance schedule
2) 5-year projected, committed reserve fund balance
3) 5-year, anticipated reserve transfers in and out

6. General Guidelines

a) Draws from reserves must not exceed the fund balance unless it can be demonstrated to Council that future sources of revenue will provide adequate funding to return the fund to a positive balance
b) All operating and capital reserve funds must be fully described and include a purpose, source of funding, minimum level, optimum or target level, and the rationale used to establish the levels
c) Before creating a new reserve fund, the option of adding an incremental contribution to an existing fund of a like nature will be considered
d) The prescribed fund limits will be reviewed by Council at least once each term of office
e) Interest will be paid to those reserve funds as designated within Schedule A & B based on the average balance, calculated as the opening plus closing balances divided by two, at the annual average rate of return on long and short-term investments
f) The Municipality will maintain reserve funds in accordance with Schedule A & B

7. Adequacy

The adequacy of an individual reserve or reserve fund shall be determined on a case-by-case basis, taking into consideration the purpose of the reserve and the magnitude and timing of all future commitments and projected funding sources. Schedule A & B prescribes the target balances for each reserve and reserve fund. If a reserve or reserve fund has exceeded the recommended target, the Director of Corporate Services will review the source of funding and consider transferring funds to areas where there is high need or high priority, subject to Council approval.

Reserve and reserve fund targets:

- Total Operating Reserves as a percentage of Own Source Revenue: this indicator analyzes the health of the operating reserves by focusing specifically on the contingency reserves relying on own source revenues. The Town's benchmark is 8%-10% based on a review of best practices. This ratio is calculated for the tax supported funds and the non-tax supported funds.
- Debt to Reserve Fund ratio: This indicator provides a measure for financial prudence by comparing total debt to the total reserve balances. The current target identified in the Debt Policy is 1:1 (total debt outstanding should not exceed the total reserve and reserve fund balance)
- Liquid Assets to Total Reserves: This ratio compares the cash and investment balances to the reserve and reserve fund balances. This ratio indicates whether a Town is managing total cash flow appropriately as reserve and reserve funds should have corresponding available assets. The target for this indicator is a minimum of 1:1 (total cash and investments to be at least equal to the total reserves and reserve funds).

Reserve and reserve fund balances can be increased through the following options:

- Contributions from the operating fund that are approved by Council through the annual budget process or through other in-year reports

- Yearend operating surplus allocations as recommended by the Director of Corporate Services and approved by Council
- Returning surplus funds from capital projects or other operating budgets in accordance with policy
- Donations/bequests/surcharges/fees/proceeds from sale of assets
- Interest income earned on reserve fund balances

8. Reserve Fund Borrowing

Inter-fund borrowing between reserve and reserve funds is permitted.

Short-term inter-fund borrowing is permitted to cover a reserve or reserve fund shortfall over a period of less than two years where;

- sufficient funding is available
- it is deemed appropriate by the Director of Corporate Services
- interest is paid annually on the borrowed funds where applicable; and,
- Council approved By-law

Long-term inter-fund borrowing is permitted over a period of greater than two years where;

- sufficient funding is available
- it is deemed appropriate by the Director of Corporate Services
- interest is paid annually on the borrowed funds; and,
- Council approved By-law

9. Investment Income Earned on Reserve Funds

Reserve funds must be invested and done so in a manner that is in accordance with the Town's approved Investment Policy. Investment income earned on the total cash and investment portfolio shall be credited to each separate fund in proportion to the amount invested from it. The investment income allocation shall be based on the average annual balance of the reserve fund calculated at year end at the average annual interest rate earned on the Town's total cash and investment portfolio.

10. Operating Carryover Reserve

An **Operating Carryover Reserve** is a municipal reserve used to transfer approved but unspent operating budget funds from one fiscal year to the next. It allows the municipality to complete planned programs, projects, or purchases that were delayed or could not be completed by year-end without requiring the costs to be funded again through the following year's operating budget. Funds should generally be carried forward only when:

- The expenditure was approved in the original operating budget
- The work or purchase was committed, underway, or delayed for a valid reason
- The funding remains available and is not needed to offset an operating deficit
- The carryover is approved in accordance with municipal policy or by Council
- The funds are used only for the originally approved purpose

An operating carryover reserve is intended for **temporary, specifically identified commitments**, not for accumulating unrestricted surpluses or funding ongoing services. Any unused balance should be returned to the appropriate operating or general reserve once the approved activity is completed or cancelled.

11. CAO Authority

The Chief Administrative Officer may authorize a withdrawal from a reserve without Council approval where:

- the withdrawal is included in a Council-approved operating or capital budget;
- the withdrawal relates to previously approved expenditure, contractual commitment, or project carryover;
- the expenditure remains consistent with the established purpose of the reserve;
- the withdrawal does not exceed the approved budget, materially alter the scope of the initiative, or reduce the reserve below its Council-approved minimum balance; or
- the withdrawal is required to address an emergency affecting public safety, essential municipal services, municipal property, or the environment

Any emergency withdrawal shall be reported to Council at a regular meeting. All other reserve withdrawals require prior Council approval.

12. Policy Review

This policy is to be reviewed with every Council term.

The Director of Corporate Services has the authority to administratively amend Schedule A & B: Reserves Policy Schedule when deemed necessary. Administrative amendments authorized are:

- Updating Schedule Appendix A & B for Council approved changes, additions or deletions of individual reserve or reserve fund policies
- Updating Schedule A & B for refinement of the reserves targets as new and improved information becomes available through Asset Management or other initiatives
- Updating Schedule A & B for the authorization language in the event of a corporate reorganization that changes the position titles referenced in the Policy

Reserves Policy
Schedule A – Operating Reserves

Type	Fund	Purpose	Funding Source(s)	Minimum Level	Target/Optimum Level	Interest Bearing
Existing, renamed	General Operating Contingency Reserve	To provide funding for unanticipated operating expenditures in the course of providing municipal services and for unforeseen general operating emergency expenditures.	One-time transfers and one-time unbudgeted sources of revenue.	5% of annual Operating expenditures (excluding utilities and requisitions)	10% of annual Operating expenditures (excluding utilities and requisitions)	☐ Yes ☒ No
Existing	Fire Operating Reserve	To provide the Fire Department with the ability to manage unforeseen operating expenses.	Annually 10% of revenue generated from fire calls	$10,000	$50,000	☐ Yes ☒ No
Existing	Olds Fashioned Christmas	To provide funding for shortfalls in operating revenues and to provide funding for approved purchases outside of normal operating expenses.	Transfers from annual operating surplus of Olds Fashioned Christmas event.	$5,000	$25,000	☐ Yes ☒ No
Existing	Utilities Operating Reserve	To mitigate utility rates and provide funding for unanticipated operating expenditures related to providing water, wastewater, stormwater and solid waste services.	Transfers from annual utilities operating surpluses.	8% of annual Operating expenditures related to water, wastewater, stormwater and solid waste departments.	12% of annual Operating expenditures related to water, wastewater, stormwater and solid waste departments.	☐ Yes ☒ No
Existing	Tax Stabilization Reserve	To mitigate tax rate increases in cases of an emergent, nonrecurring nature.	Transfers from annual operating surpluses (excluding utilities)	3% of annual operating expenditures	7% of annual operating expenditures	☐ Yes ☒ No

Reserves Policy
Schedule A – Operating Reserves

Type	Fund	Purpose	Funding Source(s)	Minimum Level	Target/Optimum Level	Interest Bearing
Existing	Cemetery Perpetual Care	To ensure long-term maintenance and upkeep of the Cemetery grounds.	A portion of the sale of burial plots and/or niches.		$30,000	☐ Yes ☒ No
Existing	Mountain View Power	To secure prudential requirements from Utility Net from time to time. To provide funding to eligible community projects through the Mountain View Power Community Grant Program.	Transfers from annual operating surpluses, specifically to the Mountain View Power budget.	$100,000	$500,000	☐ Yes ☒ No
New	RCMP Operating Contingency Reserve	A contingency fund for emergent, non-recurring, one-time expenditures	1) Annual contribution from operations 2) Other sources as approved by Council	5% of the annual RCMP Service contract	10% of the annual RCMP Service contract	☐ Yes ☒ No
New	Election Reserve	Amortize the cost of a municipal election over four years, rather than funding the entire amount in the year of the election.	1) Annual contribution from operations 2) Other sources as approved by Council	$5,000	Prior election cost total plus accumulated annual inflation to be achieved by next election year	☐ Yes ☒ No

Reserves Policy
Schedule A – Operating Reserves

Type	Fund	Purpose	Funding Source(s)	Minimum Level	Target/Optimum Level	Interest Bearing
New	Snow Removal Reserve	To provide funding for municipal snow removal services based on approved Council level of service	1) Surplus funds remaining in the snow removal operating budget at the end of the fiscal year 2) Annual contribution from operations 3) Other sources as approved by Council	$50,000	Equivalent to one-year budget expense for snow removal	☐ Yes ☒ No
New	Council Strategic Initiatives Reserve	To provide funds for projects and initiatives to support Council's Strategic Plan	1) Annual contribution from operations 2) Other sources as approved by Council	5% of the annual Council budgeted expenditures	10% of the annual Council budgeted expenditures	☐ Yes ☒ No

Reserves Policy
Schedule B – Capital Reserves

Type	Fund	Purpose	Funding Source(s)	Minimum Level	Target/Optimum Level	Interest Bearing
Existing	Cash in-lieu of Municipal Reserve	To fund public parks, public recreation areas or school authority developments as are allowed by section 671 (2) of the MGA	Funds are collected as part of the subdivision approval process.	$0	No maximum	☐ Yes ☒ No
Existing, renamed	New Infrastructure Reserve	To fund new Capital projects	1) Annual contribution from operations 2) Other sources as approved by Council	Minimum target is 1.5% of current netbook value (NBV) of tangible capital assets	No maximum	☒ Yes ☐ No
Existing	Asset Replacement/ Rehabilitation	To fund asset rehabilitation and replacement Capital projects	Annual budgeted Amortization of current assets, and one-time transfers to boost reserve levels.	Minimum target is 1.5% of current netbook value (NBV) of tangible capital assets	No maximum	☒ Yes ☐ No
Existing, renamed	Fire Truck & Equipment Reserve	To provide the Fire Department with Small Capital Equipment as outlined in Schedule "F" of the Fire Services Agreement.	1) Annual contribution from operations 2) Proceeds from the sale of fleet vehicles and equipment	Minimum target is 1.5% of current netbook value (NBV) of tangible capital assets	No maximum	☒ Yes ☐ No
Existing	Utilities Capital Reserve	To fund capital projects related to water, wastewater, stormwater and solid waste infrastructure	Annual budgeted Amortization of current utility assets, and one-time transfers to boost reserve levels.	Minimum target is 1.5% of current netbook value (NBV) of tangible capital assets	No maximum	☒ Yes ☐ No

Reserves Policy
Schedule B – Capital Reserves

Type	Fund	Purpose	Funding Source(s)	Minimum Level	Target/Optimum Level	Interest Bearing
New	Parks & Recreation Reserve	To fund capital projects maintenance, improvement, or replacement of outdoor recreation spaces, parks, playgrounds, and sports fields.	1) Annual contribution from operations 2) Other sources as approved by Council	Minimum target is 1.5% of current netbook value (NBV) of tangible capital assets	No maximum	☒ Yes ☐ No
New	Pool Reserve	To fund the long-term maintenance, repair, rehabilitation, replacement, and future capital needs of Town owned public swimming pool.	1) Annual contribution from operations 2) Other sources as approved by Council	Minimum target is 1.5% of current netbook value (NBV) of tangible capital assets	No maximum	☒ Yes ☐ No
New	Arena Reserve	To fund the long-term maintenance, repair, rehabilitation, replacement, and future capital needs of Town owned public arena	1) Annual contribution from operations 2) Other sources as approved by Council	Minimum target is 1.5% of current netbook value (NBV) of tangible capital assets	No maximum	☒ Yes ☐ No
New	CPO Equipment & Vehicle Reserve	To fund the replacement of CPO Department vehicles and equipment	1) Annual contribution from operations 2) Proceeds from the sale of fleet vehicles and equipment	Minimum target is 1.5% of current netbook value (NBV) of tangible capital assets	No maximum	☒ Yes ☐ No

Reserves Policy
Schedule B – Capital Reserves

Type	Fund	Purpose	Funding Source(s)	Minimum $ Level	Target/Optimum Level	Interest Bearing
New	RCMP Building Reserve	To fund major repairs or rehabilitation associated with the RCMP building	1) Annual contribution from operations	Minimum target is 1.5% of current netbook value (NBV) of tangible capital assets	No maximum	☒ Yes ☐ No
New	Vehicles & Equipment Reserve	To fund the replacement of municipal vehicles and equipment included in the Town's fleet (excluding fire & CPO)	1) Annual contribution from operations 2) Proceeds from the sale of fleet vehicles and equipment	Minimum target is 1.5% of current netbook value (NBV) of tangible capital assets	No maximum	☒ Yes ☐ No
New	Facilities Reserve	Capital repairs, maintenance, betterments and replacements of Town-owned buildings (except library; energy management programs to fund capital projects that would result in future energy savings; and emergency and unplanned repairs	1) Annual contribution from operations 2) Other sources as approved by Council	Minimum target is 1.5% of current netbook value (NBV) of tangible capital assets	No maximum	☒ Yes ☐ No
New	Roads, Streets, Walks & Lighting Reserve	To fund replacement and renewal of streets, roads and sidewalks. To provide funding for unanticipated	1) Annual contributions from the operating budget 2) Special Paving Tax	Minimum target is 1.5% of current netbook value (NBV) of tangible capital assets	No maximum	☒ Yes ☐ No

		capital expenditures	3) Local Improvement Tax 4) Other sources as approved by Council			
New	Land Sales Reserve	To fund the acquisition and maintenance of land classified under the Land Available for Resale Inventory	1) Proceeds from the sale of land 2) Budgeted transfers as approved by Council 3) Other sources as approved by Council	$0	No maximum	☒ Yes ☐ No
New	Technology Reserve	Replacement or upgrades of computer hardware and fund software upgrades or acquisition having corporate benefit, including shared municipal network equipment	1) Annual contribution from operations 2) Proceeds from the sale of obsolete or surplus IT equipment	Minimum target is 1.5% of current netbook value (NBV) of tangible capital assets	No maximum	☒ Yes ☐ No
New	Library Reserve		1) Annual contribution from operations 2) Year-end Library operating surplus 3) Other sources as approved by Council	Minimum target is 1.5% of current netbook value (NBV) of tangible capital assets	No maximum	☒ Yes ☐ No