



# Council Policy

## Financial Stabilization Reserve

<b>Program Impacted</b>	Financial Sustainability <i>The City of Edmonton's resilient financial position enables both current and long-term service delivery and growth.</i>
<b>Number</b>	C629
<b>Date of Approval</b>	December 6, 2021
<b>Approval History</b>	n/a
<b>Next Scheduled Review</b>	December 6, 2024

### Policy Statements

The City has unappropriated and appropriated Financial Stabilization Reserve (FSR) balances.

The purpose of the unappropriated FSR balance is to manage one-time, unexpected emergent financial needs and should not be used to address ongoing pressures or to mitigate tax-levy increases.

The appropriated FSR balance is designated for specific purposes, including operating and capital projects, as approved by City Council.

The establishment of all Reserve accounts and the transfers to and from these accounts require City Council approval.

The unappropriated FSR shall have a minimum balance of 5.0 per cent and a target balance of 8.3 per cent of current tax-supported operating expenses.

The Financial Stabilization Reserve balances will be reviewed on a periodic basis, with recommendations made to City Council.

### Guiding Principles

#### Governance

1. Transfers to and from the FSR require approval from City Council through the budget or the City Manager as specified in the *City Administration Bylaw*.

2. Use of the FSR will be determined by City Council based on recommendations from the City Manager, in accordance with *City Administration Bylaw*, after considering the general financial position of the organization.
3. A risk based review of the unappropriated FSR will be completed at a minimum every three years with revisions to the minimum and target levels, if necessary. Results will be reported to City Council for approval.

#### Administration

4. The unappropriated FSR minimum and target balances are calculated based on 5.0 per cent and 8.3 per cent of the current tax-supported operating expenses (excluding non-cash items such as amortization and gain/loss on sale of tangible capital assets).
5. One hundred per cent of any Annual Tax-Supported Operating Surplus will be applied to the unappropriated FSR. Any balance above the target will be amortized evenly over three years, starting with the subsequent year's operating budget or applied to significant one-time operating expenses or capital priorities.
6. In the event the unappropriated FSR balance falls below the minimum, a strategy will be adopted to achieve the minimum balance over a period not to exceed three years, starting with the subsequent year's operating budget. The strategy may include replenishing the unappropriated FSR with any unplanned one-time revenues, previously committed one-time contingent funds or appropriated items that are no longer required for their original purpose. Other Reserve and equity account balances will be reassessed and where appropriate, amounts transferred to the unappropriated FSR.
7. The appropriated FSR balances are reviewed annually and reallocated or released to the unappropriated FSR when no longer required as approved by City Council.

#### Reporting

8. The minimum and target balance of the unappropriated FSR will be revised and reported with the completion of each audited annual financial statement.
9. The balance of the unappropriated FSR in comparison to minimum and target balances will be provided to City Council through regular financial reporting.

#### **Definitions**

- **Annual Tax-Supported Operating Surplus** The excess of revenue over expenses (excluding non-cash amortization and gain/loss on sale of tangible capital assets), for tax-supported operating activities, as consistent with the City's audited financial statements.
- **Financial Stabilization Reserve - Appropriated** The committed reserve account balances that are designated for specific purposes (i.e to carry forward one-time funding for a project in the following year) as approved by City Council.

- **Financial Stabilization Reserve - Unappropriated** The uncommitted reserve account balance established for the purpose of providing one-time funding to address significant emergent financial issues. The Reserve is not intended to be used to stabilize future tax rate increases.
- **Reserve Accounts** Represent amounts appropriated from surpluses for designated requirements.
- **Risk Based Review** A methodology used to analyse and quantify risks that could have a significant impact on a municipality and the financial reserves required to address uncertainty and financial loss. Risk factors considered include revenue source stability, expenditure volatility, vulnerability to extreme events and public safety concerns, experience with capital projects and the amount of debt and liabilities.