
OPERATING, STATUTORY AND DISCRETIONARY RESERVES

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Approved By: MVRD/MVHC/GVWD/GVS&DD Boards

Policy No. FN-016

PURPOSE

To outline principles and requirements that guide the establishment, use and management of Metro Vancouver reserves.

DEFINITIONS

“Annual Surplus” means excess of revenues over expenditures for the current year;

“Legal Entity” means Greater Vancouver Water District (GVWD), Greater Vancouver Sewerage and Drainage District (GVS&DD), which includes the legal functions of Liquid Waste and Solid Waste, Metro Vancouver Housing Corporation (MVHC) and Metro Vancouver Regional District (MVRD); and

“Statutory Functions” mean functions related to the Metro Vancouver Regional District, which include: Affordable Housing, Air Quality, Electoral Area, General Government, Labour Relations, Regional Global Positioning System (GPS), Regional Parks, Regional Planning, E911 Emergency Telephone Service, Regional Emergency Management and Sasamat Fire Protection Service.

POLICY

Reserves are funds that are appropriated as a means of providing financial security against an unforeseen financial loss, such as a revenue shortfall and unexpected expenditures, or for meeting future financial obligations. They are a key element of Metro Vancouver’s long term financial sustainability and they provide a mechanism to ensure a strong financial position. Metro Vancouver reserves are categorized as Operating, Statutory or Discretionary.

Metro Vancouver’s Reserves Policy supports the following principles:

- Financial stability, security and sustainability
- Consistent with long term financial plans, Board and Corporate strategic goals
- In accordance with legal requirements under applicable legislation

In addition to these guiding principles, reserves shall be established and managed in accordance with the following:

- All reserve contributions and applications must be approved by the Board
- All reserve balances will earn interest at a rate based on Metro Vancouver’s average return on investments
- All reserves exclusively belong to a specific legal entity or statutory function and can only be applied to fund business activities of that legal entity or statutory function.

- Financial Services is responsible for the stewardship and oversight of all Metro Vancouver reserves.

1. OPERATING RESERVES

Operating Reserves are established for each legal entity and statutory function to serve as a measure of financial security should there be an unforeseen financial loss beyond the control of the organization.

A legal entity or statutory function's inherent risk of experiencing an unforeseen financial loss increases both with the level of business activity as well as the nature of that business activity. Operating expenditures serve as a measure of an entity or function's level of business activity; therefore, the greater the business activity the greater the risk of an unforeseen financial event. Risk of an unforeseen financial loss also increases with volatility associated with the business activity.

Minimum Reserve. The minimum required Operating Reserve amount for a legal entity or statutory function shall be determined as a percentage of the legal entity or statutory function's prior year operating expenditures net of reserve contributions, contributions to capital and debt service costs and is based on the inherent risk of incurring a financial loss. As noted above, the higher the level of inherent risk, the higher the required reserve minimum balance.

Operating Reserve balances must be maintained at the established minimum amounts in order to ensure security against unforeseen financial impacts as this financial security is paramount to financial sustainability. Should the Operating Reserve balance fall below the established minimum, the Operating Reserve must be replenished to the minimum level within two budget years.

Contributions to Reserve. Contributions to Operating Reserves are made through the appropriation of annual surpluses generated from operations within a legal entity and statutory function.

Usage of Reserve. The usage of Operating Reserve balances will only be contemplated for the funding of unforeseen revenue shortfalls or expenditures obligations where other sources of funding is not available.

a) Greater Vancouver Water District (GVWD) Operating Reserve

The required Operating Reserve for the Water Services function is equal to 15% of net operating expenditures representing approximately two months of operating costs.

The GVWD is an entity whose primary revenue source is the sale of water based on a unit rate per cubic metre of water consumed within the region. The unit rate is set at a rate to cover annual expenditures and based on an estimated volume of overall regional consumption. The

actual level of consumption, however, may vary from expectation due to many factors including weather, effectiveness of conservation measures and the implementation of watering restrictions. This potential volatility in consumption and that the majority of expenditures are not variable with the level of consumption and cannot easily be adjusted should there be a drop in consumption, results in the GVWD having a higher relative level of inherent risk associated with their business activities.

b) Greater Vancouver Sewerage and Drainage District (GVS&DD) – Solid Waste

The required Operating Reserve for the Solid Waste function is equal to 15% of net operating expenditures representing approximately two months of operating costs.

Solid Waste is a function whose primary revenue source is Tipping Fee revenue based on a unit rate per cubic tonne of waste disposed of within the region. The unit rate is set to cover annual expenditures and is based on an estimated volume of overall regional waste tonnage. The actual level of waste tonnage, however, may vary from expectation due to many factors including level of construction and demolition, effectiveness of waste diversion activities and waste migration. While some expenditures in Solid Waste are somewhat variable with waste volumes, many are fixed. This along with the potential volatility in waste volumes leads to Solid Waste having a higher relative level of inherent risk associated with their business activities.

c) Greater Vancouver Sewerage and Drainage District (GVS&DD) – Liquid Waste

The required Operating Reserve for the Liquid Waste function is equal to 10% of net operating expenditures representing approximately one month of operating costs.

Liquid Waste is a function whose primary revenue source is an annual sewer levy collected from member jurisdictions and as a result are low risk in terms of collection. While the majority of revenues in Liquid waste carry a high level of certainty, the nature of the business of collecting and treating sewage has operating risks including weather related overflows, impacts from power interruption and infrastructure failure. As a result, Liquid Waste has a moderate relative level of inherent risk associated with their business activities.

d) Metro Vancouver Housing Corporation (MVHC)

The required Operating Reserve for the Housing Corporation function is equal to 10% of net operating expenditures representing approximately one month of operating costs.

The MVHC is reliant on tenant rents to support the annual expenditures to provide affordable housing. The level of rental revenue has some inherent risk of volatility due to factors including vacancy rates, tenant turnover and rental losses caused by required repairs and maintenance activities. The nature of the housing complexes being of wood construction, include a level of risk of unforeseen significant maintenance requirements. As a result, the MVHC has a moderate relative level of inherent risk associated with their business activities.

e) Metro Vancouver Regional District (MVRD)

The required Operating Reserve for each MVRD Statutory function is equal to 5% of net operating expenditures representing approximately one half of one month of operating costs.

The statutory functions of the MVRD are reliant on tax requisition collected from member jurisdictions and therefore, have low risk in terms of revenue collection. In addition, the MVRD statutory function’s operating expenditures are relatively consistent annually and quite predictable. As a result, the MVRD statutory functions have a low relative level of inherent risk associated with their business activities.

SUMMARY OF OPERATING RESERVE MINIMUMS	
Legal Entity/Statutory Function	Operating Reserve Amount
Greater Vancouver Water District	15% of prior year’s net operating expenditures (approximately 2 months of operating costs)
Greater Vancouver Sewerage and Drainage District Solid Waste	15% of prior year’s net operating expenditures (approximately 2 months of operating costs)
Greater Vancouver Sewerage and Drainage District Liquid Waste	10% of prior year’s net operating expenditures (approximately 1 month of operating costs)
Metro Vancouver Housing Corporation	10% of prior year’s net operating expenditures (approximately 1 month of operating costs)
Metro Vancouver Regional District Affordable Housing Air Quality E911 Emergency Telephone Service Electoral Area Service General Government Labour Relations Regional Emergency Management Regional Global Positioning System Regional Parks Regional Planning Sasamat Fire Protection Service	5% of prior year’s net operating expenditures (approximately 0.5 month of operating costs)

2. STATUTORY RESERVES

Statutory Reserves are established where reserves are required within a legal framework which governs their composition and application. Statutory Reserves are reserves set aside for a legal entity and statutory function for a specific purpose in accordance with the applicable terms and conditions within the establishing legal framework as follows:

- Legal statute
- Board approved bylaw
- Governing agreement with another level of government or entity

Examples of Statutory Reserves include Liquid Waste Development Cost Charges, Cultural Grants and Park Land Acquisition.

Contributions to Reserve. Contributions to Statutory Reserves are made through annual budget contributions and the appropriation of the annual surplus generated from operations in accordance with legal statute, Board approved bylaw, or governing agreement.

Usage of Reserves. The usage of Statutory Reserve balances will only be authorized for the purpose designated by the Statutory Reserve and must be withdrawn in accordance with legal statute, Board approved bylaw, or governing agreement.

3. DISCRETIONARY RESERVES

Discretionary Reserves are established by the Board for legal entities and statutory functions as an appropriation of annual surplus to meet a known or anticipated future financial obligation.

Contributions to Reserve. Contributions to Discretionary Reserves are made through the appropriation of the annual surplus generated from operations for a known or anticipated future financial obligation, or for general future usage in accordance with the priority sequence as outlined under “Appropriation of Annual Surplus.”

Usage of Reserves. The usage of Discretionary Reserve balances will fund expenditures as an additional annual revenue source to support Metro Vancouver’s goals and priorities in reducing the need for revenue from rates, levies and tax requisitions. The usage of Discretionary Reserves will be included, where applicable, within the five-year financial plan.

4. APPROPRIATION OF ANNUAL SURPLUS

After ensuring that all Operating Reserves meet the minimum balances as established under this Policy and that all requirements for Statutory Reserves and Discretionary Reserves are met, any annual surplus remaining will be utilized in accordance with the following priority sequence:

- Fund capital expenditures or pay down existing debt.** This is consistent with debt avoidance and the mitigation of future financial obligations
- Fund one-time expenditures.** This includes but is not limited to funding equipment purchases and consulting initiatives and projects.
- Rate stabilization for a legal entity or statutory function.** This involves smoothing out utility rates, levies or tax requisitions resulting from operating budget expenditures.

BOARD POLICY

Usage of reserves for rate stabilization is only used in circumstances where priorities 1) and 2) are not applicable, or have been met. This application is discretionary and may not be applicable. If not applicable, then move to priority 4.

- iv. **Maintain as a Statutory or Discretionary Reserve.** This can represent an addition to an existing Statutory or Discretionary Reserve or the establishment of a new Discretionary Reserve based on new information regarding a future financial obligation.

Management of Reserves

When the Board has approved the use of reserves to fund expenditures, the funding must be spent for the intended purpose within the year of approval, or the following budget year.

Although reserves are to only be used for their intended purpose, there may be instances when short-term internal borrowing from reserves is financially beneficial or required. Internal borrowing is permitted to temporarily finance funding requirements to avoid external temporary borrowing or to fund emergencies as required, in accordance with the applicable legislation. If money from one reserve is used for temporary financing purposes, there must be repayment of the amount used to the reserve, plus interest within five years of borrowing.

Internal borrowing and transferring of funds from Reserves must be approved by the Board.