



COUNTY OF WELLINGTON

COMMITTEE REPORT

To: Chair and Members of the Administration, Finance and Human Resources Committee
From: Ken DeHart, County Treasurer
Date: Tuesday, June 15, 2021
Subject: **Reserves and Reserve Funds Policy Update**

Background:

The purpose of this report is to recommend an updated reserve and reserve fund policy, which was last updated in 2016. The proposed policy maintains much of the content of the current policy, but has been updated to include some additional best practices and improvements to form and format. A number of changes have been made to Schedule "A" of the policy including the consolidation, closing, renaming, repurposing and creation of new reserves as outlined in this report.

Reserves to be consolidated upon approval of the updated policy

- The Tax Levy Stabilization and Corporate Contingency reserves are to be consolidated into a new **Contingency and Stabilization** reserve. The two reserves form similar purposes to provide emergency funding, stabilize (or smooth) changes to the tax levy and to provide basic working funds (or cash flow) to the County. The BMA Reserves and Debt Management Policy study recommends that stabilization/emergency/working funds have a target balance equivalent to two months of own source revenues as a best practice. This change provides increased flexibility and less duplication by combining the two reserves and gets them closer to the recommended target balance.
- There are currently three separate Museum donation-related reserve funds being: General Museum Donations; Museum Garden Donations; and Museum Archives Donations. The Museum is currently the only department in the County with multiple donation reserves – Library and Wellington Terrace have one each. Consolidating the three reserve funds into a new **Museum and Archives Donation** reserve fund will increase flexibility for their use and reduce the need to administer three separate reserve funds for a similar purpose.
- The County currently has four environmental related reserves including: Green Legacy and Forest; Trail Development; Environmental Protection; and Green Initiatives. These four reserves are infrequently used and recommended to be combined into a new **Climate Change Mitigation and Adaptation** reserve that could be used to implement the recommendations coming out of the County's new Climate Change Mitigation Plan. This could also include the uses originally identified in the four separate reserves. This provides a funding source to implement the plan and more flexibility to use the funds.

Reserves to be closed upon approval of the updated policy

- **Solid Waste Services Capping Materials** reserve is to be collapsed into the Solid Waste Services Capital Reserve as this reserve is used less frequently and the existing reserve balance will be consolidated into the Solid Waste Services Capital reserve to increase flexibility for future use, while still being able to be used for capping materials, when required.
- **Corporate Insurance** reserve is to be collapsed into the new Contingency and Stabilization reserve as the insurance reserve is currently utilized to provide emergency funding for deductible payments on insurance claims and to smooth the impacts of large insurance premium increases from year-to-year. This can be accomplished within the Contingency and Stabilization reserve.
- **Short-Term Disability Self-Insurance and Short-Term Disability Self-Insurance Union** reserves to be collapsed into the new Contingency and Stabilization reserve as these reserves are used to fund short term disability costs and provide coverage for related vacancies when needed. This can be accomplished within the Contingency and Stabilization reserve without the need for separate reserves.
- **Accessibility** reserve is to be collapsed into the General Capital reserve. The accessibility reserve was originally created through savings from the County's accessibility grants programme and was utilized more frequently when it was first created. The funds are now utilized to smooth access to local municipal grants. However, this can still be accomplished through the General Capital Reserve and provide more flexibility for use of the funds.

Reserves to be renamed and/or repurposed

- Employee Benefits reserve to be renamed the **Post-Employment Benefits Liability** reserve fund to comprehensively address the County's post-employment benefit liabilities. The County's Long-Term Financial Sustainability Strategy identified to "Protect and Preserve Intergenerational Equity" as one of its nine principles. As such, the County should work towards funding its unfunded liabilities (which are liabilities that have been incurred for the future, but not yet paid). The existing Employee Benefits reserve is used, in part, to pay for the County's share of early retiree benefits, which form part of the unfunded liability. The new reserve fund could be used for this purpose and all post-employment liabilities identified in the County's actuarial review. Previous uses of the Employee Benefits reserve to fund significant benefit premium increases, maternity leave or EAP programme costs will now be funded from the Contingency and Stabilization reserve as required.

Reserves to be closed upon completion of objective

- **Public Health Debt Retirement** reserve fund is to be closed once it is used to pay down the balloon payment for the Public Health debt on June 3, 2023 (issued in 2013, originally amortized over 20 years with a 10-year balloon payment)

Reserves to be created upon approval of the updated policy

- **Continuum of Care Reserve** - to maintain the balance and provide for future capital funding set aside for the Continuum of Care project. The prior reserve transfers for this commitment were made to the Wellington Terrace Capital Reserve. Upon approval of the policy, the transfers will be moved to the new Continuum of Care Reserve. This reserve will be used to accumulate the required County share of funding for this project and will be closed when the project is complete or reallocated for another purpose, if the project doesn't move forward.

Reallocation of funds upon approval of the updated policy

- Excess funds available in the **Short-Term Disability** reserve fund in the amount of \$951,474 will be reallocated to the **Post-Employment Benefits Liability** reserve fund. This reallocation results in the County's post-employment benefit liability being fully funded at \$1,833,561 (2020). The remaining balance in the Short-Term Disability reserve funds will be closed into the new Contingency and Stabilization Reserve as indicated above.
- Previous contributions to the Wellington Terrace Capital Reserve specifically set aside for the Continuum of Care project in the amount of \$4,054,949 (2018 surplus) and \$1,000,000 (2020 budgeted transfer) and related interest earned of \$333,502, for a total of \$5,388,451 will be reallocated to the **Continuum of Care** reserve. This will leave a balance in the Wellington Terrace Capital Reserve of \$8,425,424.

Attachments:

- Appendix A: proposed Reserves and Reserve Fund Policy
- Appendix B: existing Reserves and Reserve Fund Policy (with schedule A updated to 2020 financials)

Summary

The County's strategic use of reserves is one of the many factors behind the improvement in its credit rating since the initial development of this policy. This and other financial policies will help to strengthen Wellington County's long-term financial position and provide stability to the corporation. Solid reserve and reserve fund balances allow the County to have the flexibility to respond to economic cycles and unanticipated requirements. Reserves provide the ability to fund the operating and capital needs of the various departments and to respond to both opportunities and risks as they arise.

Recommendation:

That the attached County of Wellington Reserves and Reserves Fund Policy be approved; and

That the County Treasurer be authorized to establish new reserves, rename existing reserves, transfer balances and close reserves as set out in the attached County of Wellington Reserves and Reserve Funds Policy.

Respectfully submitted,



Ken DeHart, CPA, CGA
County Treasurer