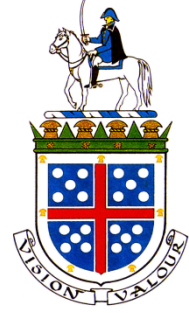


COUNTY OF WELLINGTON

POLICY & PROCEDURE MANUAL



DEPARTMENT	TREASURY	POLICY NUMBER	TR-21-02
SECTION	FINANCIAL SERVICES	EFFECTIVE DATE:	JUNE 25, 2021
SUBJECT	RESERVES AND RESERVE FUNDS		
AUTHORITY	PENDING COUNTY COUNCIL APPROVAL ON JUNE 24, 2021		

STATEMENTS:

The reserve and reserve fund policy is established to secure adequate working capital for cash flow and contingency purposes while maintaining reasonable tax rates. Reserves and reserve funds serve as a mechanism to plan financially for today and the future. The County strives to maintain solid reserves and reserve fund positions to ensure future liabilities can be met; capital assets/infrastructure are properly maintained; and that the County maintains sufficient financial flexibility to respond to economic cycles and unanticipated financial requirements.

PURPOSE:

1. To promote a long-term, strategic approach to the use of reserves and reserve funds as a financing tool.
2. To establish the principles regarding the creation, funding, use and closing of reserves and reserve funds.
3. To maintain reserves that will:
 - Mitigate significant increases in tax rates as a result of uncontrollable factors such as weather, economic conditions, interest rate fluctuations, unemployment levels, development trends and changes in subsidies, revenues or cost sharing arrangements
 - Provide financing for extraordinary expenditures which would otherwise cause fluctuations in operating or capital budgets
 - Ensure adequate and sustainable cash flows
 - Make provisions for replacements/renewals/acquisitions of assets and infrastructure that are currently being consumed and depreciated
 - Avoid spikes in funding requirements for large capital projects by reducing their reliance on long-term debt
 - Provide flexibility to manage debt levels in accordance with the County's Capital Budget, Lease Financing and Debt Management Policy
 - Provide for future liabilities incurred in the current year but paid for in the future; and
 - Segregate funds received and/or to be used for a specific purpose.

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PROCEDURES:

Authority under the Municipal Act, 2001

- Section 289(4): In preparing the annual budget, an upper-tier municipality may provide for such reserves as the municipality considers necessary
- Section 293: specifies that the Minister may make regulations requiring a municipality to establish a reserve fund designated for prescribed liabilities, defining "liabilities", requiring a municipality to make payments into the reserve fund, prohibiting the municipality from changing the purpose for which the reserve fund is designated; and prescribing the conditions under which the municipality may change the designation of all or any part of the reserve fund, and borrow from the reserve fund.
- Section 417: allows a municipality to provide in its budget for the establishment or maintenance of a reserve fund for any purpose for which it has authority to spend money and that a municipality may by by-law provide that the money raised for a reserve fund may be spent or applied to a purpose other than that for which the fund was established

Roles and Responsibilities

County Council

- Evaluate and approve policies, ensure that policies, practices and procedures are in place and maintain the financial integrity of the municipality;
- May establish reserves and reserve funds for any purpose deemed necessary by resolution, or if required in accordance with a provincial statute;
- Approve transfers to and from reserves and reserve funds through the budget process or by specific resolution and by-laws;

Chief Administrative Officer

- Support the County Treasurer and senior management team in ensuring principles and requirements contained in this policy are applied consistently across all County departments.

County Treasurer (or designate)

- Develop and update the Reserve and Reserve Fund policy as necessary and present changes to Council for approval;
- Ensure that the principles and requirements contained in this policy are applied consistently across all departments;
- Report to Council the reserve balances and forecast as part of the annual budget process;
- Disclose balances of reserves and reserve funds by way of a note to the annual financial statements, in conformity with Public Sector Accounting Board standards;
- Close reserves and reserve funds once their use is no longer required and funds depleted; and otherwise by resolution of County Council;
- Process transfers to and from reserves and reserve funds in compliance with the sources and uses listed in the attached Schedule A; and in accordance with annual approved operating and capital budgets;
- Process transfers to reserves and reserve funds at year-end in accordance with this policy and the Year-End Accounting Policy.

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- Invest reserve and reserve funds for a term that will not exceed its expected date of need according to the Cash and Investment Management policy. Interest earned on reserves and reserve funds is transferred to each specific reserve and reserve fund according to its proportionate share of the investment portfolio and discretion of the Treasurer;
- Review and recommend reserve and reserve fund targets to ensure adequate reserve and reserve fund balances are maintained and are in alignment with the County's Long-Term Financial Sustainability Strategy and Asset Management Plan. The target balance criteria, funding sources and uses of reserves and reserves funds are set out on Schedule "A", which forms part of this policy.

Department Heads

- Ensure the County Treasurer or designate is provided with the most current capital asset information to be used in the County Asset Management Plan and assessment of the adequacy of capital reserves;
- Consult with the County Treasurer when reserve or reserve funds are required for unbudgeted transactions.

Principles and Objectives

1. The County recognizes that the strategic use of reserves and reserves funds is an integral part of the Long-Term Financial Sustainability Strategy. As such, reserve and reserve fund related financial indicators will be compared over time and across municipalities to ensure the County is achieving its goals.
2. The County supports the principle of intergenerational equity whereby the generation of citizens who benefit from an investment are also responsible for financing it to the greatest extent possible.
3. Reserve and reserve fund balances impact the County's credit rating and associated cost of borrowing and therefore at a minimum, reserve and reserve fund balances shall be maintained at levels that support the maintenance or improve the County's credit rating.
4. Reserves and reserve funds shall receive priority consideration for the distribution of surplus funds and of non-recurring revenues.

Reserves and Reserve Fund Categories

1. **Contingency and Stabilization Reserves** – used to offset extraordinary and unforeseen expense requirements, one-time expenses, revenue shortfalls, to avoid significant fluctuations on the general tax levy and to manage cash flows.
2. **Capital Reserves** – used to fund specific replacement or renewal of capital assets. As the assets of the County increase, so should the contribution from the operating budget to these reserves for the replacement and rehabilitation needs of the underlying capital assets on lifecycle costing.
3. **Specific Purpose Reserve Funds** – established to provide funding for various liabilities and in response to specific programmes and commitments made by County Council.

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DEFINITIONS:

Deferred Revenue: means revenue that is considered a liability on the County's financial statements until, over time, it becomes relevant to current operations, such as a prepayment received for something that has not yet been provided. Deferred revenue may be set aside in an obligatory reserve fund for a specific purpose by legislation, regulation, or agreement. Development charges and federal gas tax revenues are examples of deferred revenue for which an obligatory reserve has been set aside.

Reserve: A reserve is an allocation of accumulated net revenue set aside for a designated purpose. Funds held in a reserve can be utilized at the discretion of Council. Reserves do not earn interest on their own, although interest may be allocated to reserves if desired.

Reserve Fund: A reserve fund is established based on a statutory requirement or defined liability payable in the future and is usually prescriptive as to the basis for collection and use of monies in the fund. All earnings derived from reserve fund investments form part of the reserve fund. There are two types of reserve funds: discretionary reserve funds and obligatory reserve funds.

- **Discretionary reserve funds:** established whenever Council wishes to set aside a certain portion of any year's revenues to finance a future expenditure for which it has the authority to spend money, or to provide for a specific contingent liability.
- **Obligatory reserve funds:** created whenever a statute or legislation requires that revenue received for special purposes is to be segregated from the general revenues of the municipality. Obligatory reserve funds are created solely for the purpose prescribed for them.

OTHER RELATED DOCUMENTS AND POLICIES

- Long-Term Financial Sustainability Strategy and Policy
- Capital Budget, Lease Financing and Debt Management Policy
- Year-End Accounting Policy
- Cash and Investment Management Policy
- Strategic Asset Management Policy
- Annual Budget and 10-Year Plan
- County Asset Management Plan

COUNTY OF WELLINGTON SCHEDULE "A" TO RESERVE AND RESERVE FUND POLICY				
Reserve	Balance at 12/31/2020 (with proposed reallocations)	Target Balance	Typical Sources of Funding	Typical Uses of Funding
Contingency and Stabilization Reserves				
Contingency and Stabilization	\$16,249,925	Minimum balance to be no less than two months (16.7%) of own source revenues	Annual operating budget provision, insurance premium refunds, internal Employee Assistance Programme and Short-Term Disability charges to departmental benefit budgets (% of payroll) as needed	To mitigate significant increases in tax rates, meet emergency and unplanned funding needs and higher than budgeted operating costs (such as insurance) as determined by Council
Winter Control	\$2,807,248	12-18 months of Winter Control budget	Year-end winter control related budget savings	To fund over-expenditure in winter control related budget
Shared Services Stabilization	\$6,877,520	8-10% of annual federal, provincial and municipal contributions for Social Services, Health Unit, Ambulance and POA	Annual operating budget provision	To mitigate any federal, provincial or municipal cost sharing agreements changes or revenue losses
Total	\$25,934,693			
Capital Reserves				
Roads Equipment	\$3,126,545	Sufficient to fund capital replacements over a 2-4 year term	Annual operating budget provision and net auction revenue	Acquisition of replacement equipment; new purchases if balance permits
Solid Waste Services Equipment	\$1,329,492	Sufficient to fund capital replacements over a 2-4 year term	Annual operating budget provision	Acquisition of replacement equipment; new purchases if balance permits
Roads Capital	\$11,635,192	Sufficient to fund capital requirements over a 1-2 year term (Excluding Equipment and DC)	Annual operating budget provision, Aggregate Resources Act revenue, capital project savings	Funding of roads capital projects; budget adjustments at time of tender; road and bridge emergency capital spending
General Capital	\$5,818,439	10-15% of average annual capital budget	Transfers from operating budget, capital project savings, interest earned on capital project balances	Financing of capital budget as required for services without a dedicated reserve
Solid Waste Services Capital	\$3,724,717	Sufficient to fund capital requirements at active landfill sites, transfer stations and capping material over a 1-2 year term	Capital project savings, transfers from operating budget	Financing of Solid Waste Services capital projects; budget adjustments at time of tender and acquisition of capping materials
Housing Development	\$2,114,035	Sufficient to fund new social and affordable housing units in accordance with the 10 year housing and homelessness plan	Annual operating budget provision, net revenue generated by County-owned affordable housing projects	Funding for County affordable housing incentives and projects
Housing Capital	\$3,399,947	Sufficient to fund County's social and affordable housing capital requirements over a 1-2 year term	Annual operating budget provision, capital project savings	County share of: • housing projects per budget; • budget adjustments at time of tender; and • housing emergency work
County Property	\$8,263,941	8 - 12% of total insured building value (excluding Social/Affordable Housing) 2021 insured value \$207,864,500	Annual operating budget provision, capital project savings, proceeds from sale of County properties	Fund construction of County facilities, property acquisition and capital improvements to existing facilities
Wellington Terrace Capital	\$8,425,424	Sufficient to fund the replacement of the Terrace building and components as required	Annual operating budget provision (including debt retirement savings)	To fund capital works related to the Long-Term Care Home
Continuum of Care	\$5,388,451	TBD	Allocation of year end surplus and operating budget provision	To fund the Continuum of Care project
Climate Change Mitigation and Adaptation	\$2,242,652	TBD	Transfers from operating budget and savings from related programmes	Funding of Climate Change Mitigation Plan, Trail Master plan initiatives and related requirements
Ambulance	\$570,369	Sufficient to fund County Share of City capital replacements over a 2-4 term	Annual operating budget provision	Funding of land ambulance initiatives, significant future year end budget shortfalls and future capital or facility costs
Total	\$56,039,204			

Note: Annual operating budget surplus allocation is considered a potential source of funding for all reserves and reserve funds

COUNTY OF WELLINGTON SCHEDULE "A" TO RESERVE AND RESERVE FUND POLICY				
Reserve	Balance at 12/31/2020 (with proposed reallocations)	Target Balance	Typical Sources of Funding	Typical Uses of Funding
Specific Purpose Reserve Funds				
Landfill Closure & Post Closure	\$8,491,715	Fully fund landfill liability balance (as updated annually by consultant - \$8,613,565 as of December 2020)	Annual operating budget provision	To fund all operating and capital expenditures relating to landfill closure and post-closure
Workplace Safety Self Insurance	\$3,731,534	Sufficient to cover WSIB liability in accordance with the actuarial review, the corporate health and safety programme and associated legal liabilities	Internal charges to departmental budgets calculated as a % of payroll	Funding of: • WSIB salaries, fees and administration costs • County health and safety programme; and • Excess indemnity and occupational accident insurance premiums
Post-Employment Benefits Liability	\$1,833,561	Fully fund the Post-Employment benefit liability in accordance with actuarial review (\$1,833,561 as of December 2020)	Retiree benefit charges to departmental budgets (% of payroll) as needed	To fund County share of retiree post-employment benefit expenses
Luella Logan Scholarship/Award	\$148,792	N/A	Donation received in 2019 from Mr. Robert Logan, in honour of his wife Luella "Lou" Logan.	Funds are earmarked for 1) Lou Logan Annual Scholarship Award to a County of Wellington student enrolled in political science, public administration or related degree; and 2) Annual Award for Outstanding Service by a Woman in Politics
Health Unit Debt Retirement Reserve	\$2,854,327	Minimum - June 3/2023 principal and balloon payment - \$3,006,000	Lump sum repayments from the Health Unit to reduce loan balance	Reserve created in 2019 to fund the Health Unit Debt Issue balloon payment scheduled for 2023
Housing Regeneration Reserve (Shared)	\$4,207,820	TBD	Reserve created in 2018 by consolidating the Federal Housing Projects Reserve Fund and the Housing Emergency Capital Reserve. Ongoing funding comes from AIR reconciliations, repayment of past county and provincially issued loans to housing providers	Fund non-profit and cooperative housing provider capital requests, redevelopment of sites or help fund the development of new projects
Museum and Archives Donations	\$209,675	N/A	General donations from individuals and corporations	Specific undertakings as deemed appropriate by Museum Administrator and Committee
Wellington Terrace Donations	\$77,797	N/A	General donations from individuals and corporations	Fund expenditures as deemed appropriate by Wellington Terrace Administrator and Committee
Library Donations	\$100,657	N/A	General donations from individuals and corporations	Fund expenditures as deemed appropriate by the Chief Librarian and Library Board. Fund the Olive and Fred Robins short story competition (\$300 annually)
Homeownership Loan Programme	\$202,543	Enough funds to keep loan programme viable	Affordable Homeownership programme funds provided through the Ontario Priorities Housing Initiative (OPHI) and any other future funding earmarked for Affordable Homeownership provided by upper levels of government. Additionally, when circumstances arise requiring repayment of a loan, these funds go back into the programme and are available to lend to other programme applicants who meet the eligibility requirements.	The down payment loan is provided interest-free for 20 years and will be registered on title as a 20-year mortgage. On the 20th anniversary date of the home purchase, the down payment loan mortgage will be released at the request and expense of the homeowner. In the event of a default at or before the 20-year period, the down payment loan plus a proportionate percentage of the asset value gain (based on initial down payment assistance provided), will be repayable to the County of Wellington.
Total	\$21,858,421			
Obligatory Reserve Funds / Deferred Revenue				
Canada Community Building Fund	\$5,543,456	N/A	Annual Canada Community Building Fund revenues (formerly Federal Gas Tax)	Fund municipal infrastructure in accordance with federal agreement
Ontario Community Infrastructure Fund (OCIF)	\$1,330,613	N/A	Annual OCIF funding	Fund municipal infrastructure in accordance with the OCIF Agreement
Development Charges	\$4,736,256	N/A	Development charges collected in accordance with the County's DC by-law	Growth related capital projects
Total	\$11,610,325			

Note: Annual operating budget surplus allocation is considered a potential source of funding for all reserves and reserve funds