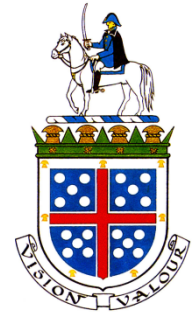


COUNTY OF WELLINGTON

POLICY & PROCEDURE MANUAL



DEPARTMENT	TREASURY	POLICY NUMBER	TR-16-01
SECTION	FINANCIAL SERVICES	EFFECTIVE DATE:	JULY 1, 2016
SUBJECT	RESERVES AND RESERVE FUNDS		
AUTHORITY	COUNTY COUNCIL APPROVAL ON JUNE 30, 2016		

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.

SUBJECT	RESERVE AND RESERVE FUNDS	POLICY NUMBER	TR-16-01
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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

Principles and Objectives

1. The County recognizes that the strategic use of reserves and reserves funds is an essential part of a long-term corporate financial plan. Reserves and reserve funds shall receive priority consideration for the distribution of surplus funds and of non-recurring revenues.
2. Reserves and reserve funds may be established for any purpose deemed necessary by resolution of County Council, or if required in accordance with a provincial statute. Typical uses of reserves are for capital financing, contingencies and stabilization, operating and programme specific purposes, future liabilities and self-insurance.
3. Reserves and reserve funds may be closed by the County Treasurer once use is no longer required and funds depleted; and otherwise by resolution of County Council.
4. The County Treasurer is authorized to process transfers to and from reserves and reserve funds in compliance with the sources and uses listed in the attached schedule; and in accordance with annual operating and capital budgets.
5. Reserve transfers not part of the annual operating or capital budget or set out specifically in this policy must be approved by County Council.
6. The target balances, funding sources and uses of reserves and reserves funds are set out on Schedule "A", which forms part of this policy.

Reserves and Reserve Fund Categories

1. **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.

SUBJECT	RESERVE AND RESERVE FUNDS	POLICY NUMBER	TR-16-01
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2. **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.
3. **Operating and Programme Specific Reserves** – established to provide for fluctuations in various benefit and insurance requirements and in response to specific programmes and commitments made by County Council.

Administration:

1. Budgeted transfers to and from reserves and reserves funds are processed following budget approval.
2. Reserve balance forecasts are developed as part of the annual budget forecast.
3. Interest shall be applied to both reserves and reserve funds.
4. Transfers to reserves and reserve funds at year-end are established in accordance with this policy and the Year-end Accounting Policy.
5. Balances of reserves and reserve funds shall be disclosed by way of a note to the annual financial statements, in conformity with Public Sector Accounting Board standards.

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 POLICIES

- ❑ Capital Budget, Lease Financing and Debt Management Policy
- ❑ Year-end Accounting Policy

COUNTY OF WELLINGTON SCHEDULE "A" TO RESERVE AND RESERVE FUND POLICY				
Reserve	Balance at 12/31/2020	Target Balance	Typical Sources of Funding	Typical Uses of Funding
Capital Reserves				
Roads Equipment	\$3,126,545	Sufficient to fund capital replacements over a 10-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 10-year term	Annual operating budget provision	Acquisition of replacement equipment; new purchases if balance permits
Roads Capital	\$11,635,192	Average annual roads capital expenditure based on most recent 10-Year Plan	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 emergencies
General Capital	\$5,631,241	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.
Solid Waste Services Capital	\$3,237,950	Two to three years of average annual capital expenditures active landfill sites and transfer stations	Capital project savings, transfers from operating budget	Financing of Solid Waste Services capital projects; budget adjustments at time of tender
SWS Capping Materials	\$486,767	2-3 years of annual capping material budgets	Savings from in-year capping materials variances	To acquire additional capping materials when available
Social Housing Capital	\$3,399,947	Two to three years of County share of average annual social housing capital expenditures	Annual operating budget provision, capital project savings	County share of: <ul style="list-style-type: none"> • social housing projects per budget; • budget adjustments at time of tender; and • social housing emergency work
County Property	\$8,263,941	10% of total insured building value (excluding Social Housing)	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	\$13,813,875	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 Homes for the Aged
Accessibility	\$187,198	N/A	Savings from in-year accessibility grants programme	Fund accessibility related projects at County facilities
Ambulance	\$570,369	Sufficient to fund capital replacements over a 10-year term	Annual operating budget provision	Funding of land ambulance initiatives, significant future year end budget shortfalls and future capital or facility costs
Contingency and Stabilization Reserves				
Tax Levy Stabilization	\$6,022,715	10% of tax levy	Annual operating budget provision	Used to mitigate significant increases in tax rates as determined by Council, mitigate significant assessment appeals beyond operating budget, capping shortfalls and to support corporate cash flow
Corporate Contingency	\$8,187,339	Minimum: 5% of tax levy Maximum: 10% of tax levy	Transfers from operating budget	To meet emergency and unplanned funding needs as deemed appropriate by Council
Winter Control	\$2,807,248	One year of annual 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	10% of annual provincial and municipal contributions for Social Services, Health Unit, Ambulance and POA	Annual operating budget provision	To mitigate any provincial or municipal cost sharing agreements changes
Operating and Programme Specific Reserves				
Employee Benefits	\$882,087	One year of health, medical and insurance benefit costs, plus average annual maternity leave and EAP expenditures	Premium refunds, internal Employee Assistance Programme charges to departmental benefit budgets (% of payroll)	Offset or phase in significant premium increases, funding for maternity leave benefits and EAP program costs
Corporate Insurance	\$579,997	Two years worth of insurance premiums	Annual operating budget provision	Used to offset higher than budgeted insurance costs and unplanned deductible payments
Green Legacy & Forest	\$310,853	N/A	Transfers from operating budget, savings from County Forests budget allocation	Fund operating and capital work on the green legacy programme, County Forests and mapping projects
Trail Development	\$349,403	Dependant on Trail Master plan and related requirements	Transfers from operating budget, savings from Rails to Trails budget allocation	Fund operating and capital work on improvement and expansion of Rail Trails network

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	Target Balance	Typical Sources of Funding	Typical Uses of Funding
Environmental Protection	\$480,417	N/A	Surplus of funds not used by GRCA for Rural Water Quality programme	To be used to fund future rural water quality, source water protection and related projects
Green Initiatives	\$1,101,979	N/A	Net revenue / savings for solar panels and hydro co-generation located at County properties	To be used to fund future green initiatives
Discretionary Reserve Funds				
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
Short Term Disability Self Insurance	\$1,541,772	1-2 years worth of average annual claims	Internal charges to departmental budgets calculated as a % of payroll	Funding of short term disability costs and to provide coverage of related vacancies
Short Term Disability Self Insurance Union	\$869,576	1-2 years worth of average annual claims	Internal charges to departmental budgets calculated as a % of payroll	Funding of short term disability costs (unionized workers) and to provide coverage of related vacancies
Housing Development	\$2,114,737	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
Museum Donations-General	\$172,858	N/A	General donations from individuals and corporations not earmarked for endowment	Specific undertakings as deemed appropriate by Museum Administrator and Committee
Museum Donations-Garden	\$20,446	N/A	Donations earmarked for garden purposes	Garden-related projects, equipment and improvement deemed appropriate by Museum Administrator and Committee
Museum Donations – Archives	\$16,371	N/A	Archives donations from individuals and corporations not earmarked for archives endowment	Archive related projects as deemed appropriate by Museum Administrator and Committee
Wellington Terrace Donations-General	\$77,797	N/A	General donations from individuals and corporations	Fund expenditures as deemed appropriate by Homes for the Aged 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 and \$300 annually to fund prizes for the Olive and Fred Robins short story competition.
Housing Regeneration Reserve (Shared)	\$4,207,820		Reserve created in 2018 by consolidating the Federal Housing Projects Reserve Fund and the Housing Emergency Capital Reserve. Future funding will come from AIRS reconciliations, repayment of past county and provincially issued loans to housing providers	Fund non-profit and cooperative housing provider capital request, redevelopment of sites or help fund the development of new projects
Landfill Closure & Post Closure	\$8,491,715	Fully fund landfill liability balance (as updated annually by consultant) as of Dec 31 2018 \$8,035,076	Annual operating budget provision	To fund all operating and capital expenditures relating to landfill closure and post-closure
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 payment and balloon - \$3,006,000	Lump sum repayments from the Health Unit to reduce loan receivable	Reserve created in 2019 to fund the Health Unit Debt Issue balloon payment scheduled for 2023

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	Target Balance	Typical Sources of Funding	Typical Uses of Funding
Homeownership Loan Programme	\$202,543	Enough funds to keep loan programme viable	Affordable Homeownership programme funds provided through the Ontario Priorities Housing Initiative 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.
Obligatory Reserve Funds / Deferred Revenue				
Federal Gas Tax Revenues	\$5,543,456	N/A	Annual Federal Gas Tax Revenues	Fund municipal infrastructure in accordance with the Federal Gas Tax 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

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