BMA
MANAGEMENT CONSULTING INC.

WELLINGTON
COUNTY

Financial Policy: Reserves and Debt Management
3rd Party Review

2021

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Introduction

Strategic financial management is required to support responsible decision making to help ensure the County meets its strategic goals and preserve the long term financial health of the County.

Wellington County is recognized by Standard and Poor's Global Rating Agency as having prudent financial policies and practices that ensure a good degree of transparency and fiscal discipline. Financial management has been strengthening and they expect this will continue. This has attributed significantly to the County's strong AA+ credit rating with a stable outlook.

S&P Global Ratings stated in their most recent credit rating review that *"The County of Wellington's strong and improving financial management practices, coupled with its stable economy and advantageous location, will continue to allow it to produce strong budgetary performance and maintain a healthy liquidity position."*

Wellington County, in keeping with leading practices continues to monitor and review its financial condition and related policies. BMA Management Consulting Inc. was retained to conduct a third party evaluation of key financial indicators that factor into a municipality's financial condition, and review the County's policies and strategies that support financial sustainability.

This review also includes a comparison of key financial indicators with regions/municipalities that have a AAA credit rating:

Halton Region
Waterloo Region
Peel Region
Durham Region
City of London

The inclusion of AAA rated municipalities provides a basis to better understand their financial position in relation to Wellington County and help identify any areas where policy modifications may be considered to further strengthen the County's credit rating and financial position.

Triple A is the highest rating assigned by S&P Global Ratings. The municipality's capacity to meet its financial commitments or obligation is <u>extremely</u> strong. A credit rating AA+ differs only to a small degree. AA+ municipality's capacity to meet its financial obligations is still <u>very</u> strong.

Also included in the benchmarking is a comparison of a broader comparator group, including Counties or Cities that have either not been rated (Elgin, Bruce, Dufferin, Grey), rated at AA (Simcoe) or rated at AA+ (City of Guelph).

Wellington County's Commitment to Long Range Financial Planning

The following provides highlights from the Standard and Poor's credit rating report dated July 2020 which reflects the County's strong commitment to financial sustainability .

Excerpts S&P AA+ Credit Rating Report—July 2020

- *High wealth, strong management, and a stable and predictable institutional framework underpin the ratings.*
- *A healthy liquidity cushion will allow the County to advance on its capital needs while maintaining a manageable debt burden through 2022.*
- *We are affirming our 'AA+' long-term issuer credit and senior unsecured debt ratings on the County.*
- *The stable outlook reflects our expectation that, in the next two years, Wellington will continue producing after-capital surpluses and maintain a moderate debt burden as it proceeds with its capital plan.*
- *Annual surpluses and healthy reserves also help fund the county's capital plan and reduce its reliance on debt funding.*

Positive Financial Trends and Prudent Financial Policies

Wellington County has developed a Long Term Financial Sustainability Strategy to help ensure long term sustainability of the County's assets and services.

Long-Term Financial Sustainability Strategy

The County of Wellington's Long-Term Financial Sustainability Strategy applies a prudent and integrated financial planning approach that identifies and manages risks to the County's long-term financial health and credit rating. The Strategy prioritizes the required resources to achieve the County's objectives and supports the cost-effective delivery of County services.

The Strategy builds on existing financial planning practices and applies a more disciplined, comprehensive and integrated approach that identifies and manages the risks to the County of Wellington's long-term financial sustainability.

The Long-Term Financial Sustainability Strategy provides Council with a tool to help make decisions about policies, services and other significant matters that impact the financial health of the County.

The Long-Term Financial Sustainability Strategy is based on nine principles that guide long term decision making at the County.

Financial Resiliency

Financial Sustainability | Financial Vulnerability | Financial Flexibility

1	Ensure Long-Term Financial Health
2	Predictable Infrastructure Investment
3	Responsible Debt Management
4	Strategic Use of Reserves and Reserve Funds
5	Competitive Property Taxes
6	Deliver Value for Money
7	Appropriate Funding for Service
8	Diversify Our Economy and Assessment Base
9	Protect and Preserve Intergenerational Equity

Wellington County—Risks and Challenges

Although the County is in good financial shape, a number of risks and challenges have been identified and taken into consideration in the preparation of the Long Term Financial Strategy and 2021 Operating Budget:

- There is an existing infrastructure gap;
- Uncertain funding from upper-levels of government. The County's Ontario Municipal Partnership Fund has dropped by $3.6 million since 2012;
- Ontario Community Infrastructure Funding (OCIF) in 2021 was $1.8 million and the province announced that this program is under review for future years;
- A large geographic area with low population density;
- An aging population increases the demand for a range of County services;
- Climate change and environmental concerns;
- Operations across all departments have been affected by the pandemic; and
- Taxpayer affordability—taxpayers are looking to municipalities to do more with fewer resources, creating an environment in which there is little appetite for tax increases.

Wellington Financial Indicators

Key financial Indicators Industry recognized indicators used by credit agencies the Government Finance Officers' Association (GFOA) and the Ministry of Municipal Affairs and Housing were used to assess each of the strategic financial goals of the County and provide comparisons with other municipalities:

S ***Sustainability***

The ability to provide and maintain service and infrastructure levels without resorting to unplanned increases in rates or cuts to services.

F ***Flexibility***

The ability to issue debt responsibly without impacting the credit rating. Also, the ability to generate required revenues.

V ***Vulnerability***

Addresses a municipality's vulnerability to external sources of funding that it cannot control and its exposure to risks.

Sustainability

- Financial Position per Capita
- Asset Consumption Ratio

Flexibility

- Reserves
  - Tax Discretionary Reserves as a % of Taxation
  - Discretionary Reserves as a % of Own Source Revenues
  - Reserves per Capita
- Debt
  - Tax Debt Interest as a % of Own Source Revenues
  - Debt Charges as a % of Own Source Revenues
  - Total Debt Outstanding per Capita
  - Debt to Reserve Ratio
  - Tax Debt Outstanding per $100,000 of Weighted Assessment

Vulnerability

- Rates Coverage Ratio

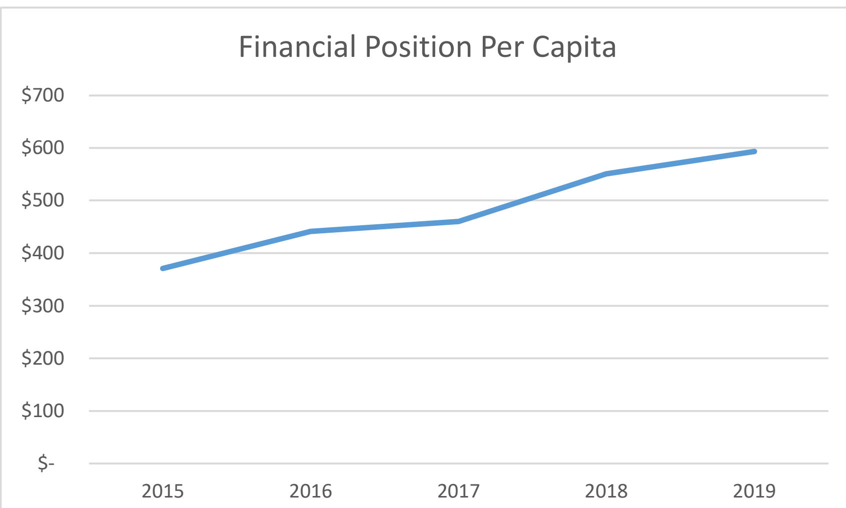
Sustainability Indicators

Financial Position Per Capita

- Financial position refers to the ending net position of financial assets in excess of financial liabilities and is a key indicator of a municipality's financial health.

- The net financial position is a broader measure of a municipality's indebtedness than debenture debt as it includes all of a municipality's financial assets and liabilities. Positive balances indicate the municipality's ability to cover debt obligations and to have funds set aside for future sustainability.

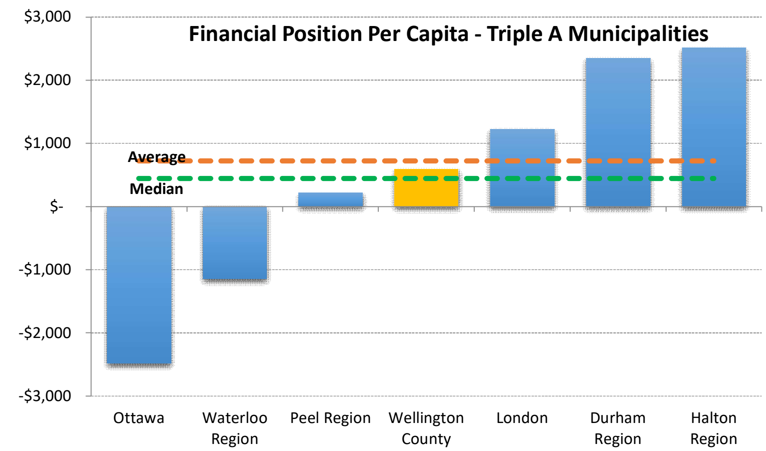
- The County's overall financial position (financial assets less liabilities) from 2015-2019 on a per capita basis is positive and has been trending up.

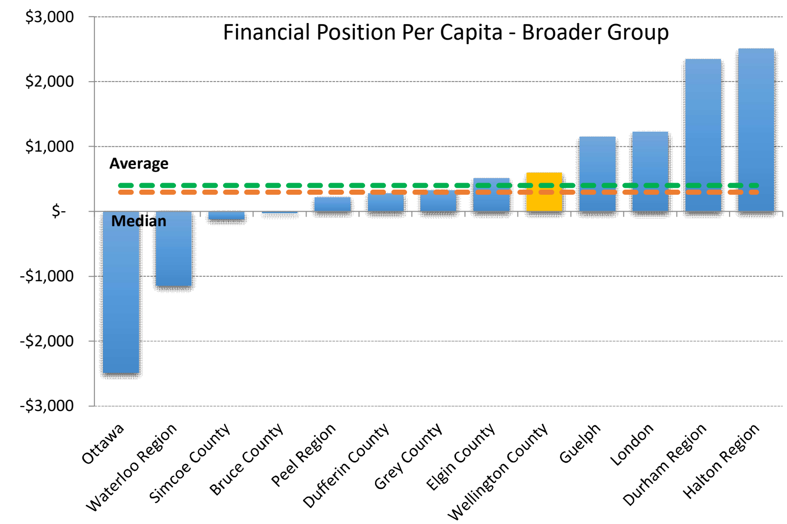


Source: FIRs

- As shown below, Wellington County's 2019 financial position is above the median but below the group average of triple A municipalities. Wellington County is above the peer median and the average of the broader comparator group.

WEAKER ***FINANCIAL POSITION*** ***STRONGER***

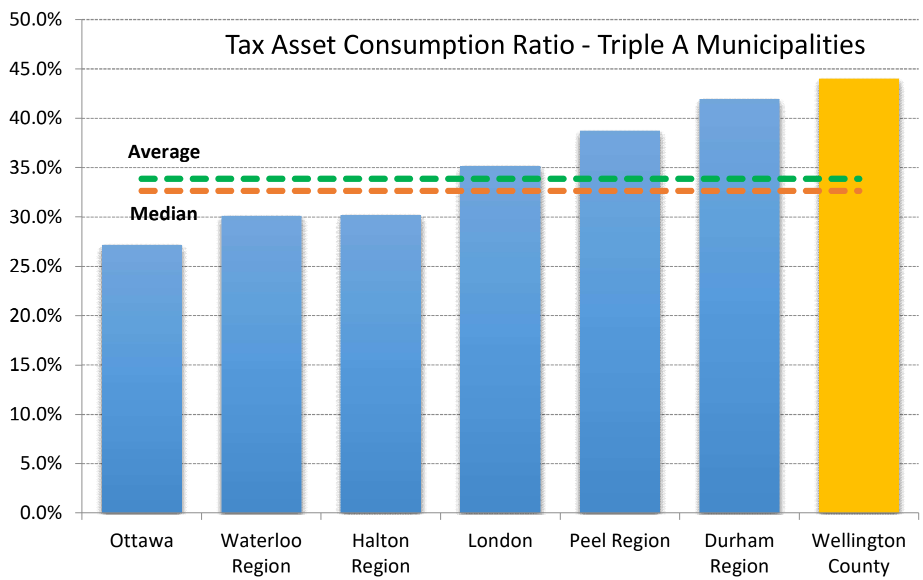




Asset Consumption Ratio

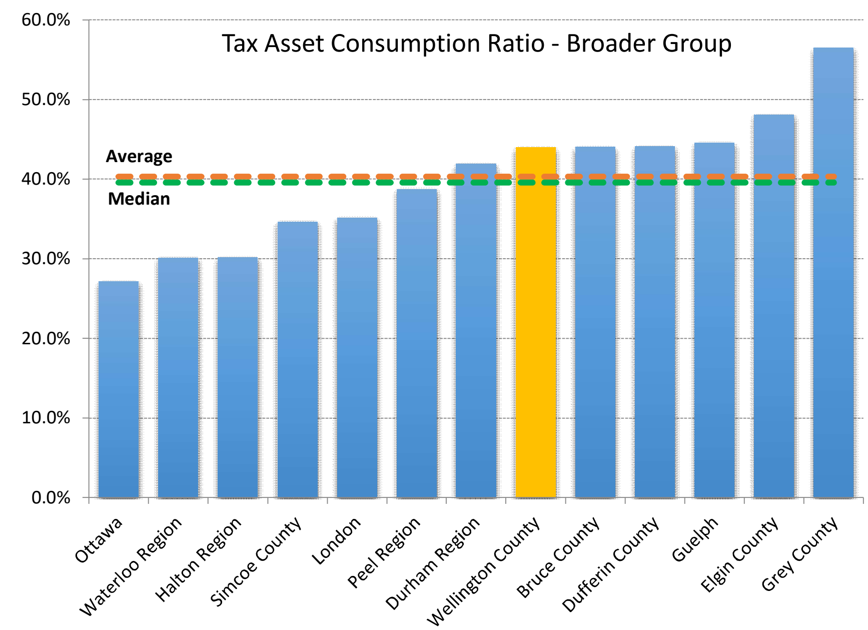
- The asset consumption ratio shows the value of the capital assets that have been consumed. This ratio highlights the aged condition of the County's capital assets and potential asset replacement needs.
- Wellington County has a higher asset consumption ratio than that of the triple A municipalities surveyed.
- According to the Ministry of Municipal Affairs and Housing, a ratio of less than 25% is considered relatively new infrastructure; 26%-50% is considered moderately new infrastructure as is the case for Wellington County assets; 51% - 75% moderately old and over 75% old.
- Wellington County's Asset Consumption Ratio is also above the peer median and average of the broader comparator group.

NEWER ASSETS ASSET CONSUMPTION OLDER ASSETS



Source: 2019 Financial Information Returns

NEWER ASSETS ASSET CONSUMPTION OLDER ASSETS



Source: 2019 Financial Information Returns

Flexibility Indicators

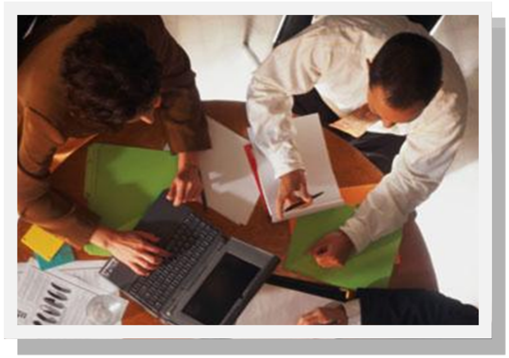
Introduction to Reserves and Reserve Funds

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.

Reserves and reserve funds serve as a mechanism to plan financially for today and the future. Maintaining sufficient reserves and reserve funds are a critical component of the County's long-term financial strategy. In accordance with leading practice, the County has established a reserve and reserve fund policy to ensure reserves and reserve funds are used strategically to mitigate significant tax increases.

The principles established by the County regarding reserves and reserve funds include the following:

- 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.



Reserves

A reserve is an appropriation from net revenue, after the provision for all known expenditures. It has no reference to any specific asset and does not require the physical segregation of money or assets as is the case of a reserve fund.

Reserve Funds

A reserve fund differs from a reserve in that reserve fund assets are segregated and restricted to meet the purpose of the reserve fund and it earns interest. There are two types of reserve funds: obligatory reserve funds and discretionary reserve funds.

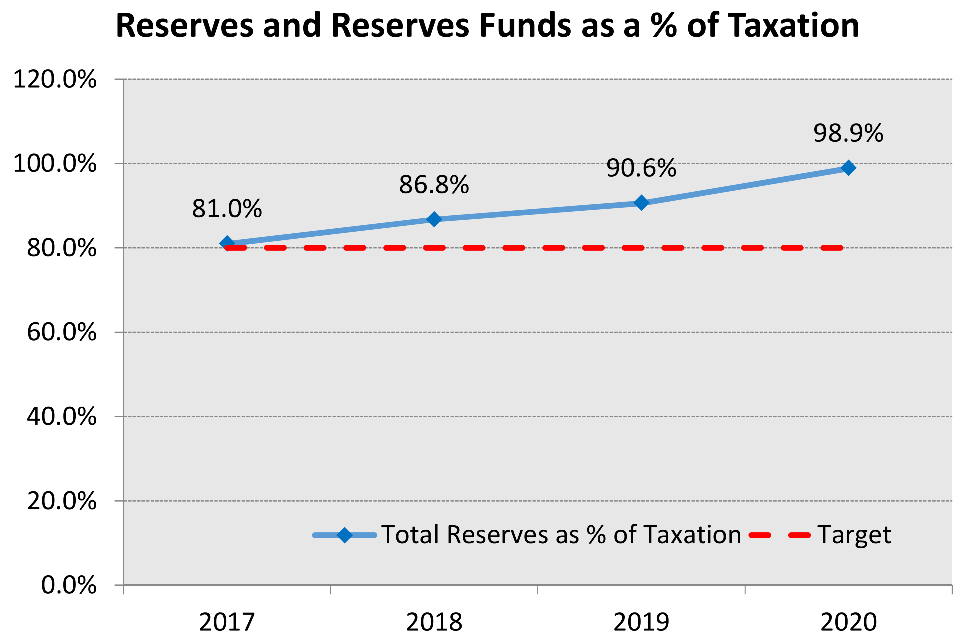
Obligatory reserve funds are created whenever a statute requires revenue received for special purposes to be segregated from the general revenues of the municipality. Examples include:

- moneys received from Federal Gas Tax; and
- moneys received as development charges as set out under Sections 33 to 37 of the Development Charges Act.

Discretionary reserve funds are created under Section 417 of the *Municipal Act*. Discretionary reserve funds are established whenever a municipal council, local board or other entity wishes to earmark revenues to finance a future expenditure for which it has the authority to spend money, and physically set aside a certain portion of any year's revenues so that the funds are available as required. The Ministry of Municipal Affairs and Housing suggests that municipalities, local boards or other entities create new reserve funds or additional allocations to a reserve fund through the budget process, including, defining the purpose for which the reserve fund is being created.

Reserves as a Percentage of the Taxation

The County's strategic use of reserves is a major contributing factor behind the improvement in its credit rating since the initial development of the Reserves and Reserve Fund Policy. **The County aims to keep reserves and reserve funds at or above 80% of the tax levy.**

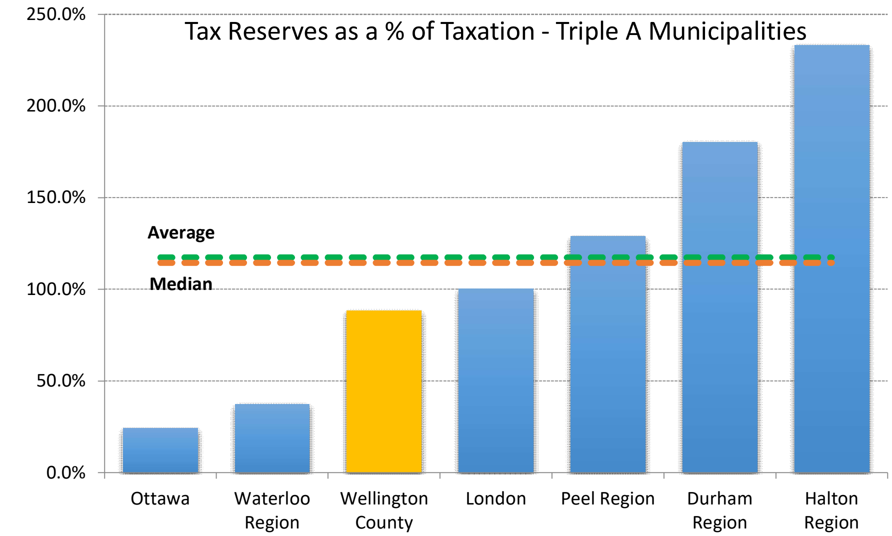


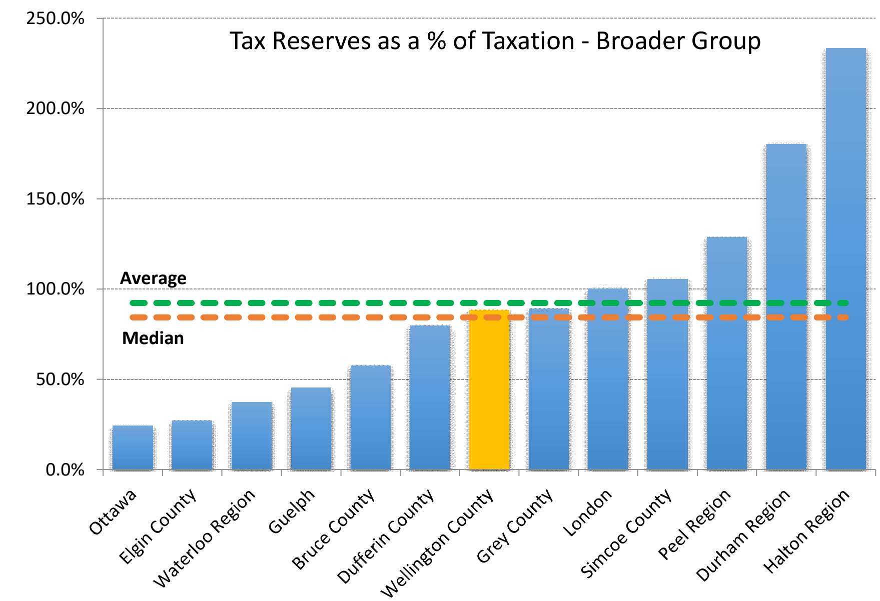
As shown in the graph above, reserve and reserve funds as a percentage of taxation has been trending up and the County has met its Total Reserve target over the last four years.

Tax Discretionary Reserves/RF as a % of Taxation

- The discretionary reserves/reserve funds as a percentage of taxation was evaluated in relation to other peer municipalities. (Note: this analysis excludes obligatory reserve funds, (e.g. Development Charges)).
- As shown to the right, Wellington County's discretionary reserves as a percentage of taxation are below the survey average of triple A rated municipalities and slightly below the peer average of the broader comparator group.

WEAKER	RESERVE POSITION	STRONGER



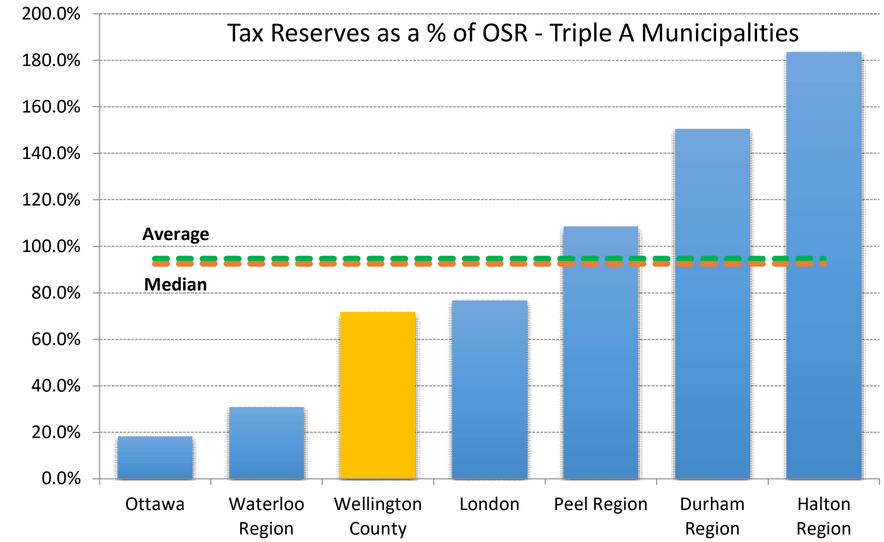


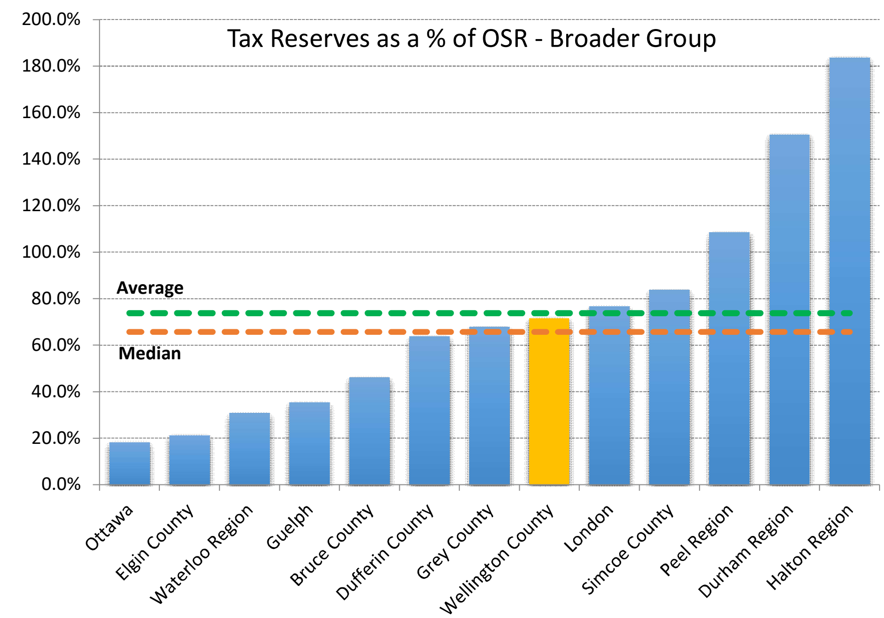
Source: 2019 Financial Information Returns

WEAKER RESERVE POSITION STRONGER

Discretionary Reserves/Reserve Funds as a % of Own Source Revenues

- This indicator provides the total tax discretionary reserves and reserve funds in relation to own source revenues.
- As shown to the right, the County's tax reserve position in 2020 in relation to own source revenues is third lowest in comparison to triple A rated municipalities and close to the peer average of the broader comparator group.





Source: 2019 Financial Information Returns

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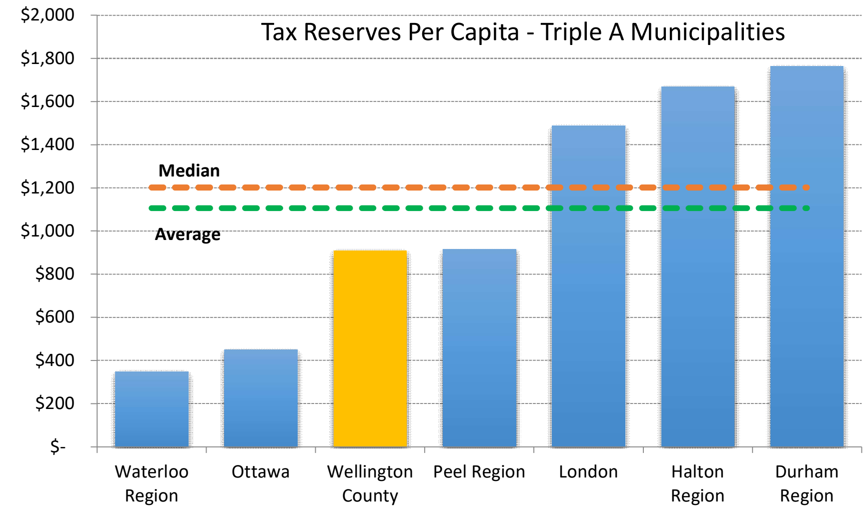
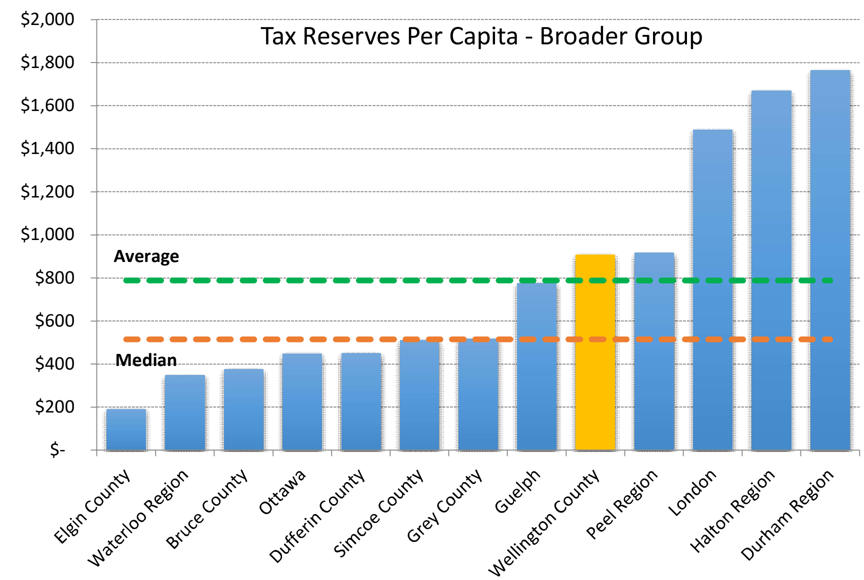
WEAKER RESERVE POSITION STRONGER

Discretionary Reserves/Reserve Funds Per Capita

- This provides the total tax discretionary reserves in relation to the population.
- As shown to the right, Wellington County's discretionary reserves per capita are below the survey average and median of the triple A municipalities however is above the peer median and average of the broader comparator group.





Source: 2019 Financial Information Returns

This section of the report provides additional analysis of the three major classifications of discretionary reserves and reserve funds and the County's supporting target and policies to assess the reasonableness of the existing targets. The County has established three categories of reserves and reserve funds as follows:

Discretionary Reserve and Reserve Fund Classifications

- ***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.
- ***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.
- ***Operating and Program Specific Reserves*** – established to provide for fluctuations in various benefit and insurance requirements and in response to specific programs and commitments made by County Council.

Summary of Reserves and Reserve Funds 2016-2020 Major Classifications

	2016	2017	2018	2019	2020	5 Year % Change
Total Contingency Reserves	$ 14,657,380	$ 15,936,896	$ 18,172,118	$ 22,378,465	$ 26,886,166	83%
Total Capital Related Reserves	$ 39,462,384	$ 45,873,114	$ 49,850,878	$ 49,053,009	$ 56,653,881	44%
Total Specific Purposes Funds	$ 12,333,865	$ 12,238,049	$ 14,460,466	$ 18,969,996	$ 20,906,946	70%
Grand Total	**$ 66,453,629**	**$ 74,048,059**	**$ 82,483,462**	**$ 90,401,470**	**$ 104,446,993**	**57%**

Source: County's year end reserve report

- The County's Total Discretionary Reserve and Reserve Fund position increased by 57% from 2016 to 2020. The next several pages provides an overview of each of the major classifications of reserves and reserve funds.

Contingency/Stabilization Working Reserves/Reserve Funds

	2016	2017	2018	2019	2020
Contingency/Stabilization Reserves					
Tax Levy Stabilization	$ 1,029,938	$ 1,057,521	$ 1,457,042	$ 3,171,948	$ 6,022,715
Corporate Contingency	$ 6,706,171	$ 6,893,286	$ 7,084,393	$ 8,810,679	$ 8,187,339
Short Term Disability Self Insurance	$ 565,690	$ 811,249	$ 1,057,521	$ 1,283,870	$ 1,541,772
Short Term Disability Self Insurance Union	$ 1,036,996	$ 1,088,679	$ 1,144,662	$ 925,156	$ 869,576
Corporate Insurance	$ 398,473	$ 414,119	$ 427,367	$ 483,088	$ 579,997
Total Contingency Reserves	**$ 9,737,267**	**$ 10,264,855**	**$ 11,170,985**	**$ 14,674,740**	**$ 17,201,398**
Winter Control	$ 757,118	$ 777,394	$ 1,342,214	$ 1,391,360	$ 2,807,248
Shared Services Stabilization	$ 4,162,995	$ 4,894,647	$ 5,658,919	$ 6,312,365	$ 6,877,520
Total All Contingency and Stabilization Reserves	**$ 14,657,380**	**$ 15,936,896**	**$ 18,172,118**	**$ 22,378,465**	**$ 26,886,166**

Stabilization reserves have increased from $14.7 million in 2016 to $26.9 million in 2020.

Purpose

The County holds stabilization reserves to offset extraordinary and unforeseen expenditure requirements, one-time expenditures, revenue shortfalls, to avoid wide fluctuations on the General Levy and to manage cash flows. This includes reserves and reserve funds for severe weather, tax stabilization, contingency and development application reserve funds.

Guiding Principles - Stabilization Reserves/Reserve Funds

- A prudent level of Stabilization Reserves/Reserve Funds will be maintained to protect against reducing service levels or raising taxes because of temporary revenue shortfalls or unanticipated expenditures.
- The use of Stabilization Reserves/Reserve Funds will be restricted to extraordinary or unforeseen events and will not be used to balance Operating Budgets.
- Minimum balances, ceilings and targets will be established, where appropriate, to provide a guideline for Stabilization Reserve balances and to balance the needs for Stabilization Reserves against Capital Reserves.

Contingency/Stabilization Working Reserves/Reserve Funds

The County employs a long-term strategic approach for the funding and use of reserves and reserve funds. To ensure adequacy of the reserves and reserve funds, the County prepares a 10 year projection for each reserve and has established targets for the individual stabilization reserves to address identified risks. The following table summarizes the County's existing targets for various Contingency/ Stabilization Reserves/Reserve Funds:

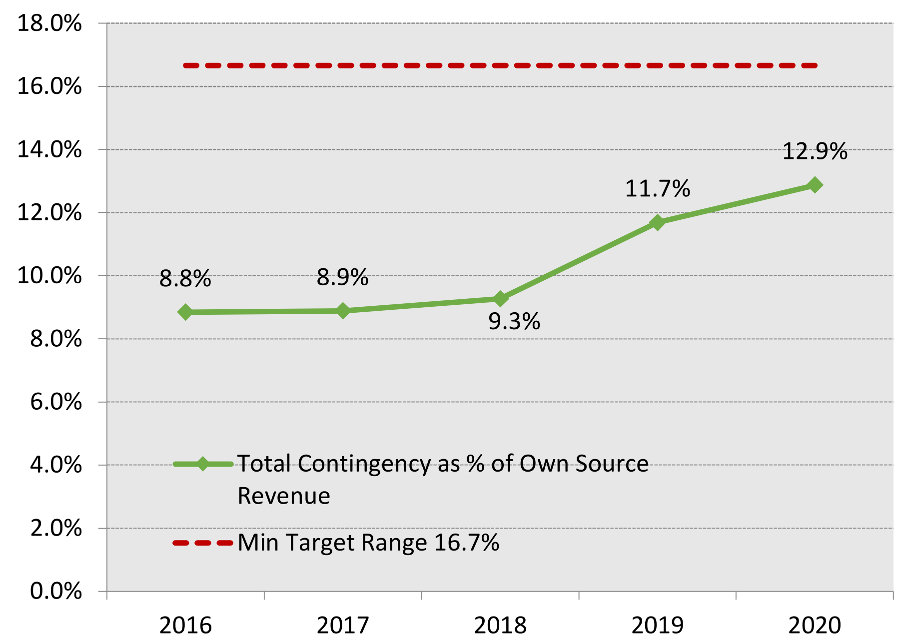
Reserve	Balance at 12/31/2020	Basis for Target Reserve Balance	Minimum Target (2021 Budget)	Maximum Target (2021 Budget)		Typical Uses of Funding
Tax Levy Stabilization	$6,022,715	5-10% of tax levy. Based on industry best practices	$5,441,000	$10,883,000		Used to mitigate significant increases in tax 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	2-4 months of tax levy requirements	$18,138,000	$36,276,000		To meet emergency and unplanned funding needs as deemed appropriate by Council
Short Term Disability Self Insurance	$1,541,772	1-2 years worth of average annual claims	$563,000	$1,126,000		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	$245,000	$490,000		Funding of short term disability costs (unionized workers) and to provide coverage of related vacancies
Winter Control	$2,807,248	12-18 months of Winter Control budget	$5,833,000	$8,750,000		To fund over-expenditure in winter control related budget
Corporate Insurance	$579,997	2-3 years worth of insurance premiums	$2,524,000	$3,786,000		Used to offset higher than budgeted insurance costs and unplanned deductible payments
Shared Services Stabilization	$6,877,520	8-10% of annual provincial and municipal contributions for Social Services, Health Unit, Ambulance and POA	$6,860,000	$8,575,000		To mitigate any provincial or municipal cost sharing agreements changes
TOTAL	**$26,886,166**		**$39,604,000**	**$69,886,000**		

Observations

- The Government Finance Officer's Association (GFOA) approach to contingency reserves does not recommend a "one -size-fits-all" minimum target.
- When setting a contingency target, municipalities should consider circumstances such as:
  - Vulnerability to significant one-time outlays;
  - Volatility of revenue and expenditure sources (e.g. senior levels of government funding, commodity prices);
  - Service level commitments;
  - Impacts on credit ratings and the corresponding increase in cost of borrowing; and
  - Other potential lost service investment opportunities due to insufficient fund balances.
- GFOA recommends, at a minimum, that these total unrestricted contingency reserve balances be maintained at a level of no less than two months of operating fund revenues or operating expenditures (equal to a minimum of 16.7% of revenues/expenditures). GFOA also states that a government's particular situation often may require a level of unrestricted fund balance significantly in excess of this recommended minimum level.

Total Contingency Reserves as a % of Own Source Revenues

- In addition the County believes that the Winter Control and Shared Services Stabilization are needed above and beyond this target due to risks associated with unique characteristics of the County – large road network over a large geographic area prone to harsh winter climates and County's high reliance on external sources of funding – government grants and City of Guelph Funding. Therefore excluding these reserves the contingency and stabilizations reserves are at 12.9% of own source revenues below the GFOA recommended target.



Observations

- The County has 7 Stabilization reserves with fund balances.

- The Corporate Contingency reserves and Tax Levy Stabilization reserve are essentially being used for the same purpose to offset significant events that would have an adverse effect on the budget i.e. emergency and unplanned funding needs, revenue shortfalls. It is recommended that the Tax Levy Stabilization Reserve, Corporate Contingency Reserve, Insurance Reserve, and Short Term Disability Reserves be consolidated into one account.

- Pooling these reserves together will provide Council with additional flexibility to stabilize the impact of unforeseen circumstances. Pooling these reserves will also reduce the administration of maintaining individual reserves.

- The County should set up a minimum target for contingency reserves excluding the Winter Control and Shared Service Stabilization reserves at 16.7% of own source revenues.

Capital Reserves

Purpose

Capital Reserves/Reserve Funds are used to assist in financing the capital program. They provide flexibility and liquidity as well as enhancing the County's capacity to handle current and future capital infrastructure needs. Capital assets must be supported by contributions to Reserves/Reserve Funds to address their eventual rehabilitation and/or replacement.

Guiding Principles—Capital Reserve and Reserve Funds

- Capital Reserves and Reserve Funds form an important component of any Capital Financing Plan and are used extensively by the County in financing the capital program for maintenance and replacement of capital assets. Planned contributions to Capital Reserves/Reserve Funds have contributed to the success of the County's financial management program. The County will determine future capital reserve requirements based on the inventory of tangible capital assets, the condition of the assets, the useful life of the assets and their disposal value.

- Best practice is to contribute to Capital Reserves and Reserve Funds for the replacement/refurbishment of capital assets. This will reduce the reliance on debt financing.

- The County owns and operates approximately $1.1 billion in assets that deliver continued services to the community, and is responsible for the maintenance and replacement of these assets.

- 10 year Capital Budget includes $441.1 million for infrastructure-related capital requirements (2021).

- It is critical for the County to plan ahead for its infrastructure requirements to ensure funds are available when required.

Capital Reserves

	2016	2017	2018	2019	2020
Capital Related Reserves					
Roads Equipment	$ 3,290,646	$ 3,247,869	$ 3,017,795	$ 3,099,123	$ 3,126,545
Solid Waste Services Equipment	$ 2,021,279	$ 2,213,924	$ 1,777,863	$ 1,093,049	$ 1,329,492
Roads Capital	$ 3,205,861	$ 8,619,192	$ 9,696,093	$ 9,408,622	$ 11,635,192
General Capital	$ 3,642,829	$ 4,507,623	$ 4,971,163	$ 4,845,418	$ 5,631,241
Accessibility	$ 251,531	$ 155,290	$ 189,666	$ 177,819	$ 187,198
Solid Waste Services Capital	$ 2,129,295	$ 2,186,320	$ 2,451,581	$ 2,436,741	$ 3,237,950
SWS Capping Materials	$ 358,149	$ 465,005	$ 504,734	$ 475,094	$ 486,767
Housing Emergency Capital (Shared)	$ 546,500	$ 561,136	$ -	$ -	$ -
Federal Housing Projects Shared	$ 1,010,221	$ 1,034,709	$ 0	$ -	$ -
Housing Development	$ 903,368	$ 243,731	$ 1,474,588	$ 1,217,787	$ 2,114,035
Wellington Housing Corp	$ -	$ 216,548	$ 383,478	$ 443,946	$ 614,675
Social Housing Capital	$ 2,704,144	$ 2,513,869	$ 2,827,618	$ 3,123,016	$ 3,399,947
County Property	$ 8,976,919	$ 9,167,871	$ 7,568,630	$ 7,746,621	$ 8,263,941
Wellington Terrace Capital	$ 8,198,058	$ 8,441,858	$ 12,341,161	$ 12,448,486	$ 13,813,875
Trail Development	$ 332,191	$ 227,197	$ 256,629	$ 295,091	$ 349,403
Green Initiatives	$ 352,285	$ 512,984	$ 666,677	$ 915,084	$ 1,101,979
Green Legacy & Forest	$ 250,024	$ 283,507	$ 316,321	$ 299,026	$ 310,853
Environmental Protection	$ 433,406	$ 445,013	$ 457,350	$ 468,896	$ 480,417
Local Trails Grant	$ 322,524	$ 243,925	$ 206,693	$ 93,377	$ -
Ambulance	$ 533,156	$ 585,542	$ 742,838	$ 465,814	$ 570,369
Total Capital Related Reserves	**$ 39,462,384**	**$ 45,873,114**	**$ 49,850,878**	**$ 49,053,009**	**$ 56,653,881**

- The County's capital reserves have increased by 44% over the past 5 years.

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Capital Reserves

As stated by Standard and Poor's Credit Rating Service, the strong operating balances allow the County to finance much of its capital expenditures on a pay-as-you-go basis and reduce the need for external borrowing.

Minimum and maximum targeted balances have been set for each of the capital reserves. A number of the capital reserves are below the targeted threshold, however, the County has prepared a 10-year capital forecast and any shortfall can be accommodated through the issuance of debt.

Reserve	Balance at 12/31/2020	Basis for Target Reserve Balance	Minimum Target (2021 Budget)	Maximum Target (2021 Budget)		Typical Uses of Funding
Roads Equipment	$3,126,545	Sufficient to fund capital replacements over a 2-4 year term	$4,810,000	$9,619,000		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	$806,000	$1,612,000		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)	$29,029,000	$58,059,000		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	$4,359,000	$6,539,000		Financing of capital budget as required.
Accessibility	$187,198	N/A	N/A	N/A		Fund accessibility related projects at County facilities
Solid Waste Services Capital	$3,237,950	Sufficient to fund capital requirements at active landfill sites and transfer stations over a 1-2 year term	$1,113,000	$2,226,000		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	$400,000	$600,000		To acquire additional capping materials when available

Capital Reserves

Reserve	Balance at 12/31/2020	Basis for Target Reserve Balance	Minimum Target (2021 Budget)	Maximum Target (2021 Budget)		Typical Uses of Funding
Housing Development	$2,114,035	Sufficient to fund new social and affordable housing units in accordance with the 10 year housing and homelessness plan	TBD	TBD		Funding for County affordable housing incentives and projects
Wellington Housing Corp	$614,675	Sufficient to fund capital requirements over a 2-3 year term	$580,000	$1,740,000		Financing of capital budget as required.
Social Housing Capital	$3,399,947	Sufficient to fund County's capital requirements over a 1-2 year term	$1,321,000	$2,642,000		County share of: • social and affordable housing projects per budget; • budget adjustments at time of tender; and • social housing emergency work
County Property	$8,263,941	8-12% of total insured building value	$16,629,160	$24,943,740		Fund construction of County facilities, property acquisition and capital improvements to existing facilities. 2021 insured value was $207,864,500.
Wellington Terrace Capital	$13,813,875	Sufficient to fund the replacement of the Terrace building and components as required	TBD	TBD		To fund capital works related to the Homes for the Aged
Trail Development	$349,403	Dependant on Trail Master plan and related requirements	TBD	TBD		Fund operating and capital work on improvement and expansion of Rail Trails network
Green Initiatives	$1,101,979	no target at this time, net revenue	N/A	N/A		To be used to fund future green initiatives
Green Legacy & Forest	$310,853	N/A	N/A	N/A		Fund operating and capital work on the green legacy programme, County Forests and mapping projects
Environmental Protection	$480,417	N/A	N/A	N/A		To be used to fund future rural water quality, source water protection and related projects
Ambulance	$570,369	Sufficient to fund County share of City replacements over a 2-4 year term	$1,263,000	$2,526,000		Funding of land ambulance initiatives, significant future year end budget shortfalls and future capital or facility costs
TOTAL	**$56,653,881**		**$60,310,160**	**$110,836,740**		

Source: County's year end reserve report

Assessing the Adequacy of Capital Reserves and Funding Practices

A review of the adequacy of the Capital Reserves was undertaken using a number of different indicators as follows:

Annual Infrastructure Funding Gap—Target 1

The annual amortization expense based on the historical cost of the assets was compared to the annual amount of funds that are contributed to the replacement of capital assets and infrastructure. This indicator helps determine, on an annual basis whether sufficient funds are being set aside for the replacement of assets.

Target 1 - Contributions	2018	2019	2020
Capital Transfers Total	**$ 28.67**	**$ 35.01**	**$ 31.87**
Tax Levy transfers	$ 21.66	$ 24.51	$ 23.89
City of Guelph	$ 2.22	$ 2.52	$ 2.63
Federal Gas Tax	$ 3.60	$ 5.98	$ 3.50
Ontario Capital Infrastructure Fund (OCIF)	$ 1.19	$ 2.00	$ 1.86
Minimum annual historical amortization expense	**$ 21.80**	**$ 23.20**	**$ 27.00**
Difference	$ 6.87	$ 11.81	$ 4.87

- As shown above, the 2019 Capital Contributions totaled $35.01 million compared with the historical amortization expense of $23.2 million. In 2020 contributions exceeded amortization by $4.87 million. It should be noted that this is a **minimum recommended** contribution level as the amortization is based on historical costs and the replacement costs will be substantially higher.

Replacement Value Annual Capital Contribution—Target 2

- GFOA recommends that annual funding allocations/levels for capital replacement include making annual contributions based on the annual replacement cost depreciation of the entity's assets.
- A leading practice is to contribute 2-3% of the total asset replacement value to fund capital replacement.

Target 2 - Capital Reserve Leading Practices	Millions
Replacement Value of assets	$ 1,087
Target 2 - Leading Practice	
Target 2% of Replacement Cost	$ 22
Target 3% of Replacement Cost	$ 33

- As shown above, using this metric, the County in 2020 contributed $31.87 million and is therefore in the range of $22-$33 million.

Infrastructure Gap—Target 3

- One available method of reviewing the degree to which the County is setting aside funds for future rehabilitation is to compare the capital reserve balances to the accumulated amortization of the County's assets.
- This ratio compares the existing Capital Reserves available in relation to the Accumulated Amortization which reflects the amount of assets and infrastructure that has been depreciated or used based on their historical cost.

- Ideally, this ratio should be 100% or greater, meaning that the amount available in reserves at any time is equal to the amount of assets that has been depreciated or used (on an historical cost basis). This indicator supports intergenerational equity.

Target 3 - Capital Reserve Leading Practices		Millions
Accumulated Amortization	$	350
2020 Capital Reserve Balance	$	57
Reserve Balance as a % of Accumulated Amortization		16%

- As shown above, the existing capital reserve balance of $57 million is well below the accumulated amortization balance of $350 million. This indicator reflects a significant infrastructure gap. The ratio is 16%, **well below the target of 100%**.

- A challenge exists similar to the majority of Ontario municipalities when past generations did not fully contribute at the appropriate level which has led to an infrastructure deficit in Wellington County.

- The actual reserve requirements should be based on the timing of capital asset replacements from condition assessments. However, comparing capital reserves to accumulated amortization is still useful to gauge the potential reserve requirements.

- This ratio also takes into account intergenerational equity which ensures that taxpayers in each time period should, as a group, contribute to public expenditures from which they derive benefits. This is established on the principle that each generation of users should pay for the infrastructure that they require and not for infrastructure required by other generations.

- As illustrated in the previous two indicators, in 2019 the County contributed the appropriate annual amount to capital replacement to maintain intergenerational equity, however like all other Ontario municipalities there is an existing infrastructure gap.

Minimum Capital Reserve Balance—Target 4

- A leading practice is for a municipality to maintain a minimum threshold cash balance in the Capital Reserves, equivalent to at least one year's worth of the 5 year average of the non-growth tax-supported capital expenditure requirements. This ensures that one year of tax based capital funding is available in reserves to maintain liquidity and funds are available for emergency situations.

  - Based on the 2019-2023 capital budget, this would be equivalent to approximately $36 million.

  - The 2020 Capital Reserve balance was approximately $57 million, exceeding the **recommended minimum target**.

Observations

- The County has 20 Capital reserves with fund balances.
- Solid Waste Services Capping Materials reserve can 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.
- 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 could 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, which could 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.
- Accessibility reserve can be collapsed into the General Capital reserve. The accessibility reserve was originally created through savings from the County's accessibility grants program 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.

Summary

Summary Capital Contributions Targets	Target	Actuals	Indicator
1 Minimum target base Historical Amortization Expense	$ 27 m	$ 32 m	Positive
2 Target based on Replacement Value	$ 22-$ 33 m	$ 32 m	Positive
3 Reserves as % of accumulated amortization	100%	15%	Negative
4 Minimum Reserve Threshold	$ 36.0 m	$ 46 m	Positive

- As illustrated in indicator #2 in 2020 the County contributed the appropriate annual amount to fund capital replacement, however there is an infrastructure gap as a result of past generations not contributing their fair share as illustrated by indicator #3.
- Indicator #4 shows that, based the spending needs over the next 5 years the County has the required minimum balance in capital reserves to maintain liquidity and have funds available for emergency situations.

Specific Purpose Reserves and Reserve Funds

Purpose

One of the measures of financial sustainability is that future generations are not forced to pay for services provided to the current generation. The County incurs liabilities that do not have to be paid immediately. For instance, the County will face future budget pressures as the County's workforce ages and post-retirement or post-employment benefits start to be paid out in larger quantities. Prudent and sustainable financial management strategies are needed to ensure future generations are not required to absorb a disproportionate share of these costs. As such, the County has a number of Specific Purpose Reserves to protect against the consequences of certain risks, liabilities and corporate programs.

Guiding Principles - Specific Purpose Reserves/Reserve Funds

- Contributions to the Specific Purpose Reserves/Reserve Funds will take into consideration the liability associated with the Reserves/ Reserve Fund.

Specific Purpose Reserves and Reserve Funds

	2016	2017	2018	2019	2020
Specific Purpose Reserve Funds					
Landfill Closure & Post Closure	$ 6,004,271	$ 6,689,659	$ 7,450,721	$ 7,970,073	$ 8,491,715
Workplace Safety Self Insurance	$ 3,424,523	$ 3,305,439	$ 3,464,351	$ 3,569,701	$ 3,731,534
Employee Benefits	$ 645,848	$ 717,441	$ 647,169	$ 670,918	$ 882,087
Luella Logan Scholarship/Award	$ -	$ -	$ -	$ 148,158	$ 148,792
Health Unit Debt Retirement Reserve	$ -	$ -	$ -	$ 2,785,879	$ 2,854,327
Rural Broadband Reserve	$ 186,746	$ 221,047	$ 176,080	$ -	$ -
Hospital Capital Grants	$ 1,820,000	$ 880,000	$ -	$ -	$ -
Housing Regeneration Reserve (Shared)	$ -	$ -	$ 2,410,787	$ 3,337,662	$ 4,207,820
Museum Donations-General	$ 35,364	$ 57,564	$ 92,560	$ 156,557	$ 172,858
General Museum Endowments	$ 31,115	$ 31,115	$ 31,115	$ -	$ -
Museum Donations-Garden	$ 18,445	$ 18,939	$ 19,464	$ 19,955	$ 20,446
Museum Donations – Archives	$ 729	$ 3,815	$ 4,529	$ 14,193	$ 16,371
Museum Archives Endowments	$ 8,896	$ 8,896	$ 8,896	$ -	$ -
Wellington Terrace Donations-General	$ 43,946	$ 57,933	$ 63,767	$ 71,121	$ 77,797
Library Donations	$ -	$ 45,721	$ 91,028	$ 93,025	$ 100,657
Best Start Reserve	$ 113,981	$ 200,480	$ 0	$ 0	$ 0
Homeownership Loan Programme	$ -	$ -	$ -	$ 132,753	$ 202,543
Total Specific Purpose Reserve Funds	**$ 12,333,865**	**$ 12,238,049**	**$ 14,460,466**	**$ 18,969,996**	**$ 20,906,946**

- Best practice research indicates that Program Specific Reserves/Reserve Funds should be reviewed annually and have an associated financial plan. It is prudent for municipalities to regularly review the ongoing need for each of the reserves/reserve funds based on future planned activities, ongoing sources of funding and existing reserve balances.

Reserve	Balance at 12/31/2020	Basis for Target Reserve Balance	Minimum Target (2021 Budget)	Maximum Target (2021 Budget)		Typical Uses of Funding
Landfill Closure & Post Closure	$8,491,715	Fully fund landfill liability (updated annually by consultant).	$8,613,565	$8,613,565	⚠	To fund all operating and capital expenditures relating to landfill closure and post-closure.2020 Liability was $8,613,565
Workplace Safety Self Insurance	$3,731,534	Sufficient to cover actuarial liability, the corporate health and safety programme and associated liabilities	$2,120,000	$3,040,000	✓	Funding of: • WSIB salaries, fees and administration costs • County health and safety programme; and • Excess indemnity and occupational accident insurance premiums
Employee Benefits	$882,087	6 months to one year of health, medical and insurance benefit costs Plus average annual maternity leave and EAP expenditures	N/A	N/A		Offset or phase in significant premium increases, funding for maternity leave benefits and EAP program costs
Luella Logan Scholarship/Award	$148,792					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					Reserve created in 2019 to fund the Health Unit Debt Issue balloon payment scheduled for 2023
Housing Regeneration Reserve (Shared)	$4,207,820	N/A	N/A	N/A		Fund non-profit and cooperative housing provider capital request, redevelopment of sites or help fund the development of new projects

Source: County's year end reserve report

Reserve	Balance at 12/31/2020	Basis for Target Reserve Balance	Minimum Target (2021 Budget)	Maximum Target (2021 Budget)		Typical Uses of Funding
Museum Donations-General	$172,858	N/A	N/A	N/A		Specific undertakings as deemed appropriate by Museum Administrator and Committee
Museum Donations-Garden	$20,446	N/A	N/A	N/A		Garden-related projects, equipment and improvement deemed appropriate by Museum Administrator and Committee
Museum Donations – Archives	$16,371	N/A	N/A	N/A		Archive related projects as deemed appropriate by Museum Administrator and Committee
Wellington Terrace Donations-General	$77,797	N/A	N/A	N/A		Fund expenditures as deemed appropriate by Homes for the Aged Administrator and Committee
Library Donations	$100,657					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.
Homeownership Loan Programme	$202,543					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.
Post Employment Liability			$1,833,561	$1,833,561		
TOTAL	$20,906,946		$12,567,126	$13,487,126		

Source: County's year end reserve report

Observations

- There are currently three separate Museum donation-related reserve funds being: General Museum Donations; Museum Garden Donations; and Museum Archives Donations. 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.

- Employee Benefits reserve to be renamed the Post-Employment Benefits Liability reserve fund to comprehensively address the County's post-employment benefit liabilities of $1.8 million. 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.

Debt Management

When local governments issue debentures, they enter into a long-term commitment that requires them to make principal and interest payments over the life of the debentures. Hence, they need to ensure that:

- future debt service payments to bondholders can be made in full and on time, without jeopardizing the provision of essential services;
- outstanding debt obligations will not threaten long-term financial stability of the municipality; and
- the amount of outstanding debt will not place undue burden on residents and businesses.

A debt management policy improves the quality of decisions, identifies policy goals and demonstrates a commitment to long-term financial planning, including a multi year plan. Adherence to a debt management plan signals to rating agencies and capital markets that the municipality is well managed and should meet its obligations in a timely manner.

The Province regulates the amount of debt that municipalities issue by setting an annual repayment limit for each municipality. This is the maximum amount by which a municipality may increase its debt. The repayment limit is set at 25% of a municipality's own source revenues. This is the upper limit. If the County were to reach the limit, future operating budgets would be severely constrained or tax and other revenues would have to increase significantly.

Under the most favorable circumstances, the County's debt should be proportionate in size and growth to the County's tax base; should not extend past the useful life of the facilities which it finances; should not be used to balance the operating budget; should not require repayment schedules that put excessive burdens on operating expenditures and should not be so high as to jeopardize credit ratings. In order to be an effective management tool, provisions of the debt policy must be compatible with the municipality's goals pertaining to the capital program and budget, the financial plan, and the operating budget. To this end, the County of Wellington has established a number of debt policies.

Existing Debt Policies

- Direct Debt to Reserve Ratio: This ratio compares direct debt to the total of all reserves and reserve funds. A generally accepted target ratio for municipalities is considered to be no more than 1:1. The County's policy is to maintain its ratio below 0.75:1.
- Interest Payment to Adjusted Operating Revenues: This ratio is a measure of the interest payable annually as a proportion of adjusted operating revenues (excludes non-cash items). It should not exceed a target of 5%, in accordance with the County's Debt Management Policy.

Guiding Principles - Debt Management

- Long term debt for the replacement and refurbishment of existing capital assets will be reduced and a planned process will be developed whereby an annual contribution will be made to meet lifecycle needs of all assets.

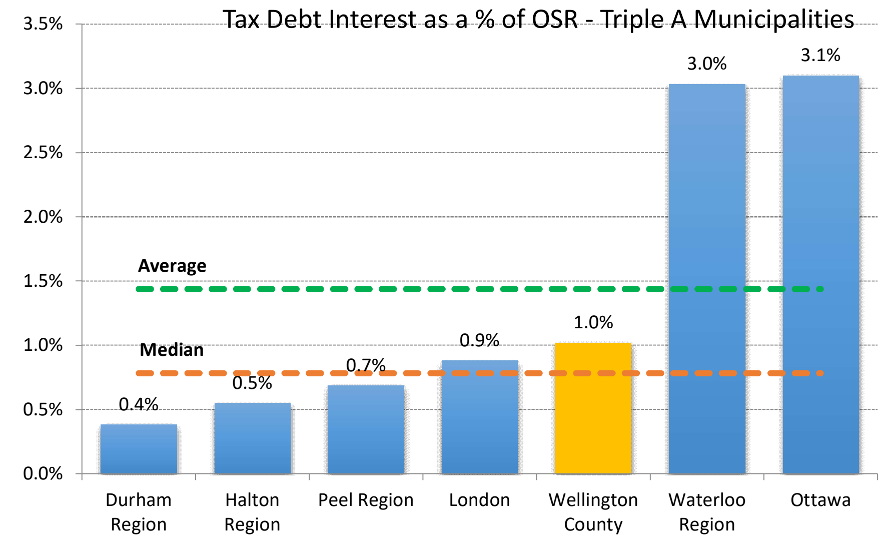
Tax Debt Interest as a % of Own Source Revenues

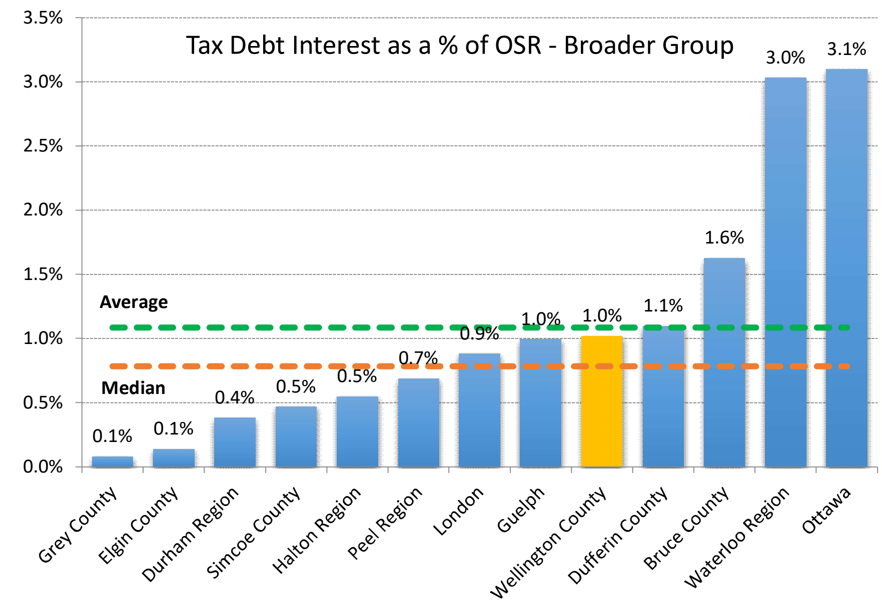
- This ratio indicates the extent to which a municipality's own source revenues are committed to service debt interest charges. The County's Debt Management Policy limits this ratio to 5%.

- As shown to the right, the County's tax debt interest ratio is **well below the County's self-imposed limit** but is slightly higher than the peer median.

- Wellington County is above the peer median but below the average of the broader comparator group.

LIMITED DEBT ***DEBT POSITION*** ***HIGHER DEBT LEVELS***



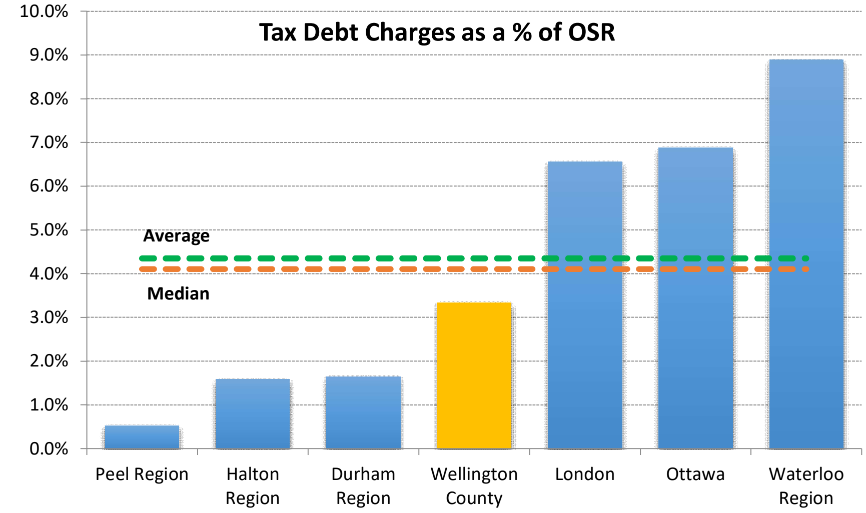


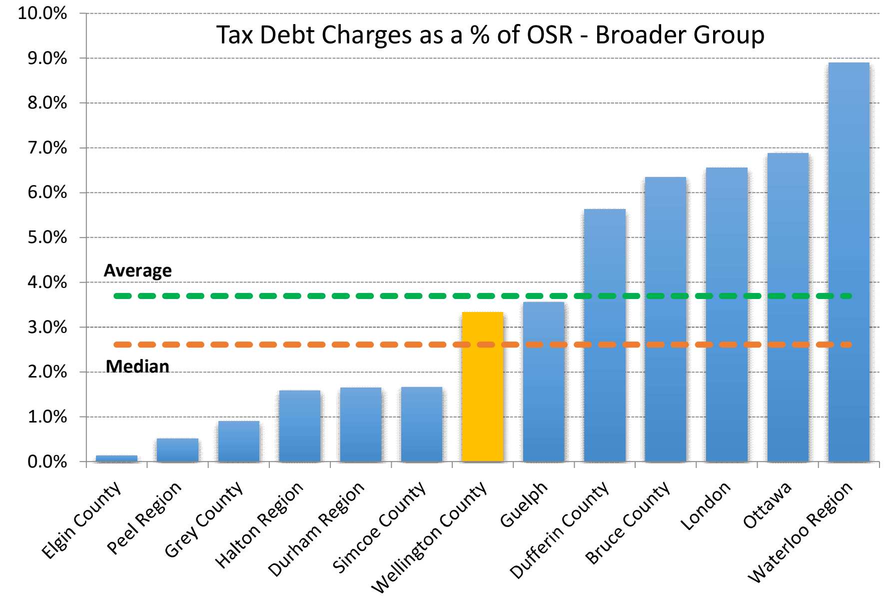
Source: 2019 Financial Information Returns

LIMITED DEBT | DEBT POSITION | HIGHER DEBT LEVELS

Debt Charges as a % of Own Source Revenues

- The County's debt charges are well below the Provincial limit which is set at 25%.
- The County's tax debt charges as a percentage of own source revenues are below the survey average in comparison to both triple A municipalities and the broader comparator group.
- The Ministry of Municipal Affairs and Housing considers a ratio between 5% -10% to be at moderate risk and a ratio below 5% to be low risk.
- The County's debt charges as a percentage of own source revenues at 3% would be considered low risk.



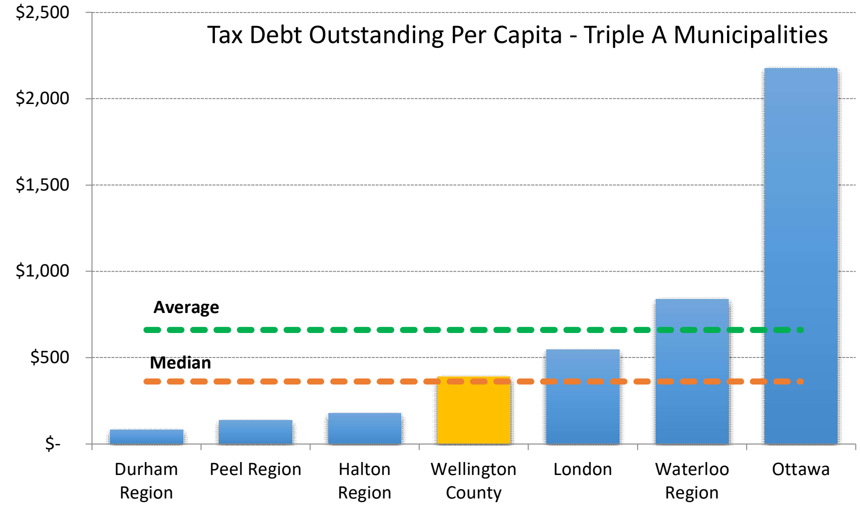


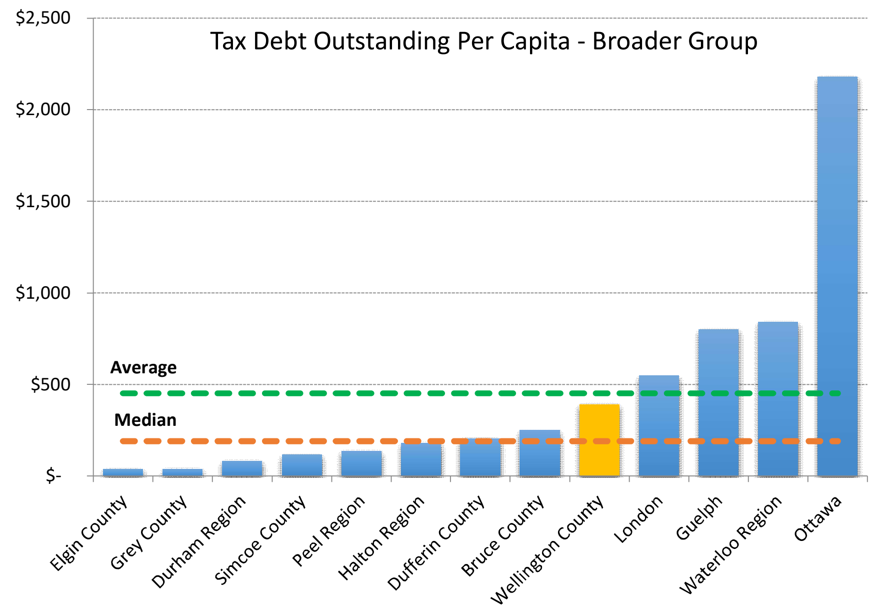
Source: 2019 Financial Information Returns

Tax Debt Outstanding Per Capita

- The debt outstanding per capita an indication of the debt burden on a per capita basis.
- The County's debt outstanding per capita is higher than the median of triple A municipalities.
- Wellington County is above the peer median but below the average of the broader comparator group.

LIMITED DEBT ***DEBT POSITION*** ***HIGHER DEBT LEVELS***



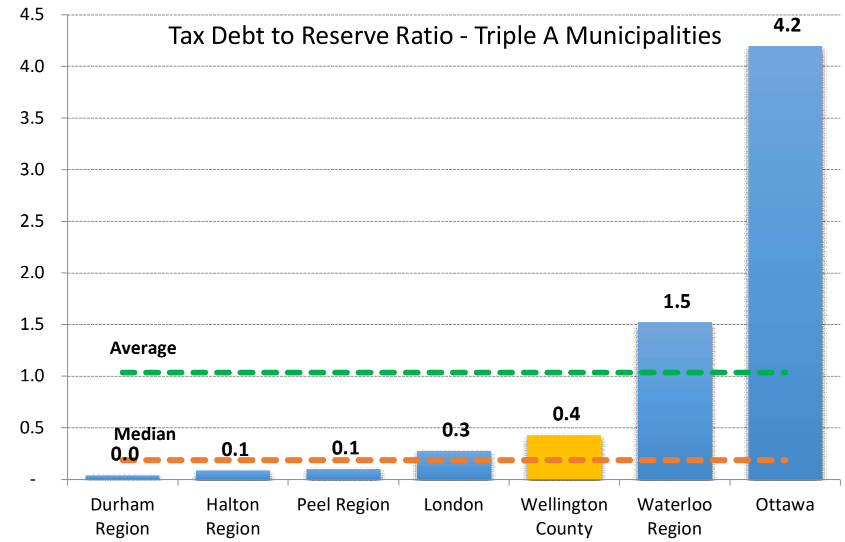


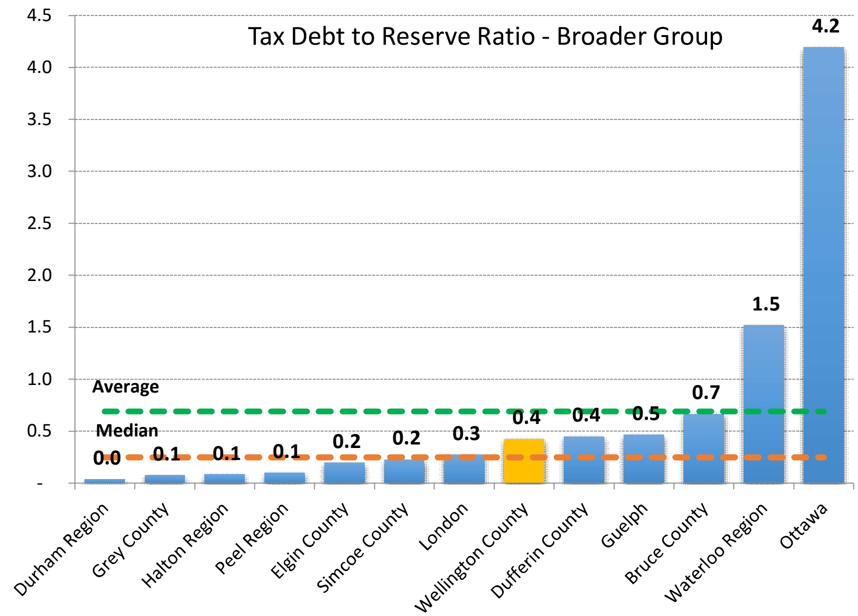
Source: 2019 Financial Information Returns

PREFERRED DEBT TO RESERVES HIGHER DEBT LEVELS

Tax Debt to Reserve Ratio

- This ratio reflects the amount of debt outstanding to the total reserves and reserve funds. A generally accepted target ratio for municipalities is considered to be no more than 1:1.
- The County has established a limit of 0.75:1 ratio indicating that the County has more reserves than long term debt outstanding.
- The County is **<u>well below its self-imposed limit</u>**, it is above the survey median of triple A municipalities but below the average.
- Wellington County is above the peer median but below the average of the broader comparator group.



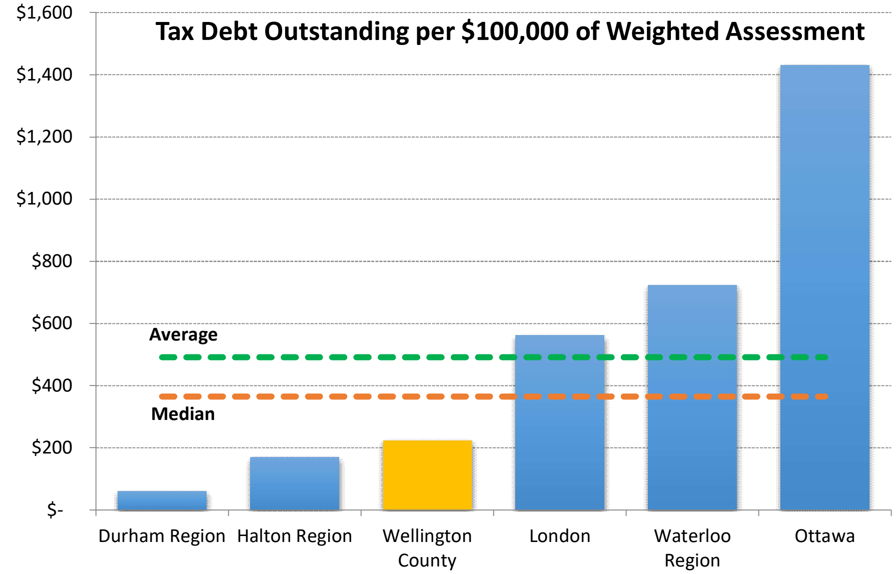


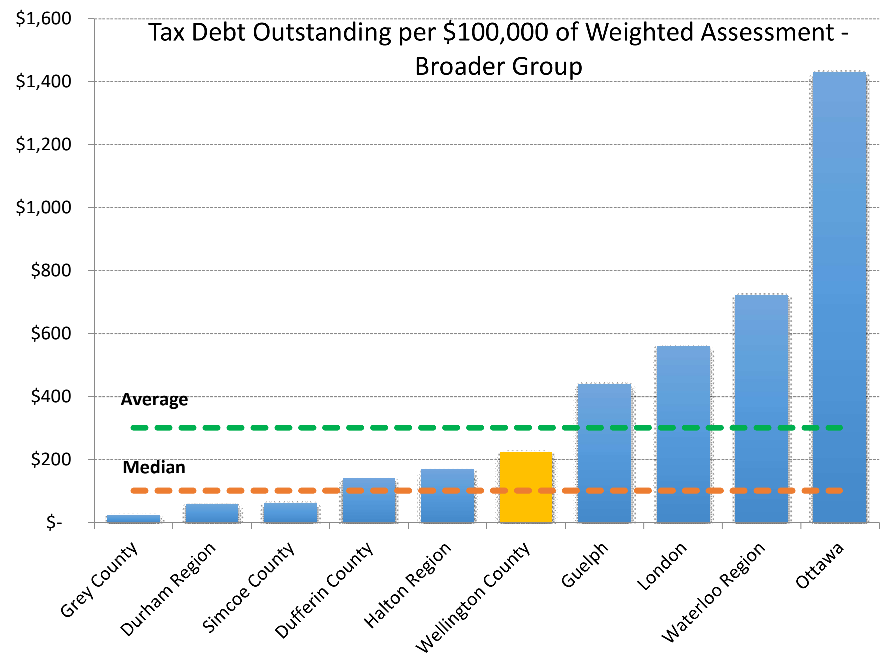
Source: 2019 Financial Information Returns

Tax Debt Outstanding Per $100,000 of Weighted Assessment

- The debt outstanding per $100,000 of Weighted Assessment is an indication of the debt burden on a per capita basis.
- The County's debt outstanding per $100,000 of Weighted Assessment is lower than the median and average of triple A municipalities.
- Wellington County is above the peer median but below the average of the broader comparator group.

LIMITED DEBT **DEBT POSITION** **HIGHER DEBT LEVELS**





Source: 2019 Financial Information Returns

Vulnerability Indicators

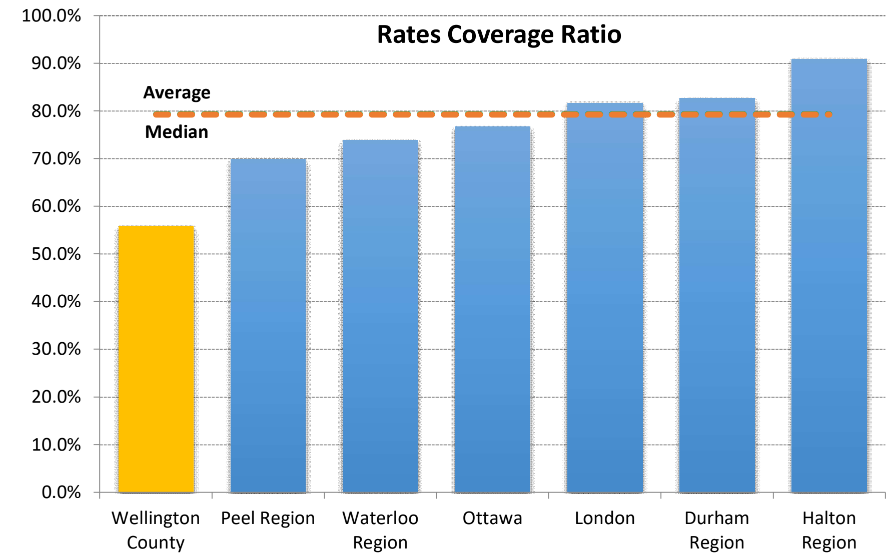
Rates Coverage Ratio

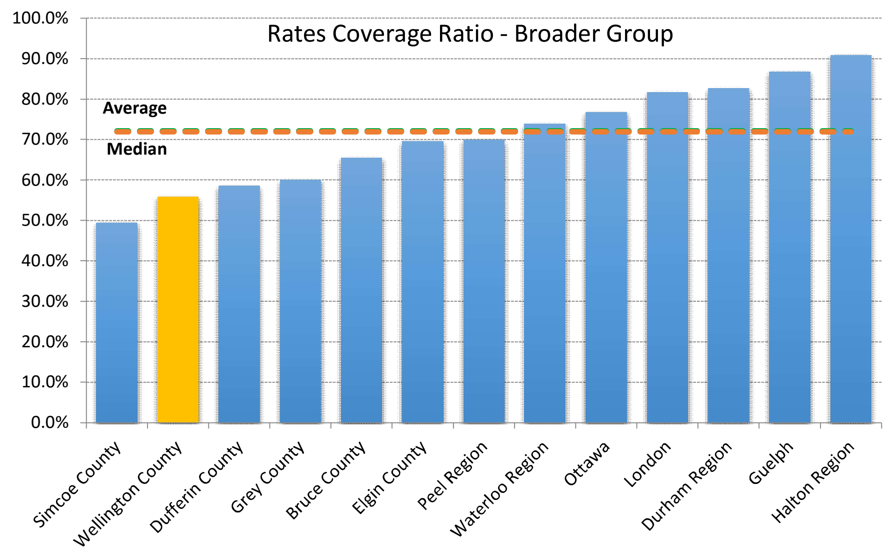
- The rates coverage ratio (own source revenue as a percentage of total expenditures) provides a measure of the municipality's ability to cover costs through its own source revenue. Municipalities with a higher ratio are less vulnerable to external sources of funding. According to the Municipal Affairs and Housing a basic target is 40% - 60%, an intermediate level is 60% - 90% and an advanced target is 90% or greater. Wellington's rates coverage ratio of 56% is at the basic level.

- Wellington County has a lower rates coverage ratio than that of the triple A municipalities surveyed.

- Wellington County's rates coverage ratio is also below the peer median and average of the broader comparator group.

WEAKER RATES COVERAGE RATIO STRONGER





Source: 2019 Financial Information Returns

Summary

- Wellington County requested an assessment of its financial condition in comparison to triple A municipalities and a peer group of other counties and municipalities.

- Wellington's large amount of infrastructure and relatively low population density makes it critical for the County to plan ahead for its infrastructure requirements.

- The County prepares a comprehensive 10-year plan that outlines how the County funds its capital requirements and utilizes its reserves in accordance with leading practices.

- The County is recognized by their credit rating agency as having sound financial policies and a framework to support financial sustainability that has contributed to it's AA+ stable credit rating.

- The County has a number of policies that are in accordance with leading practices and reflect that the County is moving in the right direction to achieve its goals and objectives of Financial Resiliency.

- The following page summarizes the County's key financial indicators.

Positive	Caution	Neutral
At or above targeted perform-ance indicator	Below targeted performance indicator	No target indicator and/or stable trend

Indicator	2020 Rating	Comments
Sustainability		
Financial Position	✔	A positive net financial position and trending up
Asset Consumption Ratio	⊖	The County's assets are considered moderately new
Flexibility		
Discretionary Reserves as a % of Taxation	✔	Discretionary Reserves as a % of Taxation exceeds the County's target and is trending up
Discretionary Reserves as a % of Own Source Revenues	⊖	Discretionary Reserves as a % of Own Source Revenue are below the average of triple A and broader group of municipalities
Reserves per Capita	⊖	Below the average of triple A municipalities but above average of broader group of municipalities
Contingency Reserves	⚠	Below GFOA recommended target after excluding Winter Control and Shared Stabilization reserves
Capital Related Reserve Funds	⊖	Policies are in place to address the infrastructure gap as well as dedicated funding sources
Specific Purpose Reserve Funds	⊖	Reserves are reviewed regurlarly
Tax Debt Interest as % of Own Source Revenues	✔	Below the County's limit of 5% and also below the average of triple A municipalities
Debt Charges as % of Own Source Revenues	✔	Below the average of triple A municipalities
Total Debt Outstanding per capita	✔	Below the average of triple A municipalities
Debt to Reserve Ratio	✔	Below the average of triple A municipalities
Tax Debt Outstanding per $100,000 of Weighted Assessment	✔	Below the average of triple A municipalities
Vulnerability		
Rates Coverage Ratio	⚠	Wellington is more reliant on external sources of revenue (eg Government Grants) than all triple A municipalities and most broader group municipalities