

SECTION:	Finance	APPROVED BY:	County Council
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REFERENCE POLICY:	6.16, 6.19, Asset Management Plan	REVISED:	November 109 , 2021 <u>2022</u>

Reserves

POLICY

A financially sustainable County government provides an optimal mix and level of services to citizens within available means while proactively taking measures to preserve the ability to continue providing value in the long term. Reserves are established to accomplish this goal.

The objective of the reserves policy is to ensure adequate working capital is available for cash flow and contingency purposes, and as a source of funding the County's long-term capital plan, while maintaining reasonable tax rates and user fees.

DEFINITIONS

Reserves A reserve is an allocation of accumulated net revenue. It has no reference to any specific assets and does not require the physical segregation of money or assets. Reserves are part of the revenue fund and, therefore, do not earn interest on their own, as is the case of reserve funds. Any earnings derived from investment of reserves' money are reported as revenue fund earnings.

Reserve Funds A reserve fund differs from a reserve in that the reserve fund assets are segregated and restricted to meet the purpose of the reserve fund. All earnings derived from such investments must form part of the reserve fund. There are two types of reserve funds: obligatory reserve funds and discretionary reserve funds.

Obligatory Reserve Funds An obligatory reserve fund, as per statute or legislation requirements, is comprised of funds received for special purposes and are segregated from the general revenues of the County. Obligatory reserve funds are created solely for the purpose prescribed for them.

Discretionary Reserve Funds A discretionary reserve fund is not segregated from the general revenues of the County, based on Council direction, to finance a future expenditure or to provide for a specific contingent liability so that the funds are available as required.

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PROCEDURES

1.0 Authority

1.1 Municipal Act, 2001

- 1.1.1 Subsection 289(3) – in preparing the budget, an upper tier municipality may provide for such reserves as the upper tier municipality deems necessary.
- 1.1.2 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.
- 1.1.3 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.

2.0 Principles and Objectives

- 2.1 The County recognizes that the strategic use of reserves and reserve funds is an essential part of long term corporate financial planning (Policy 6.16 Long Term Financial Sustainability Plan). In addition, reserves and reserve funds shall receive priority consideration for the distribution of surplus funds and non-recurring revenues.
- 2.2 Reserves represent an important tool in debt management as it is a source of financing for larger projects. Capital budgets can vary from year-to-year, which can create a funding need that may be best financed over time (Policy 6.19 Debt Management Policy).
- 2.2 Reserves and reserve funds may be established for any purpose deemed necessary by resolution of County Council, or if required in accordance with provincial statute. Typical uses of reserves are for contingencies, stabilization purposes and capital financing.

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- 2.3 Reserves and reserve funds may be closed only by resolution of Council.
- 2.4 The County Treasurer is authorized to process transfers to and from reserves and reserve funds in compliance with the sources and uses listed in Appendix “A”, which forms an integral part of this policy, and in accordance with annual operating and capital budgets.
- 2.5 Reserve transfers not part of the annual operating or capital budget or set out specifically in this policy must be approved by County Council.
- 2.6 Target balances, funding sources and uses of reserves and reserve funds are set out in Appendix “A”.

3.0 Reserves and Reserve Fund Categories

Appropriate balances shall be maintained reflecting the nature of the accounts, such as:

- 3.1 **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.
 - 3.1.1 Corporate General
 - 3.1.2 Water/Wastewater Community Servicing Assistance Program
 - 3.1.3 Waste Collection
 - 3.1.4 Legal
 - 3.1.5 Insurance
 - 3.1.6 WSIB
 - 3.1.7 Pay Equity
 - 3.1.8 Training
 - 3.1.9 Working Funds
- 3.2 **Government Funded Reserves** – established to track the revenues received from the Provincial and Federal Governments for specific services. Funding received from other levels of government will be used in future budgets as per the guidelines or requirements of each program.
 - 3.2.1 Canada Community-Building Fund
 - 3.2.2 Ontario Community Infrastructure Fund
 - 3.2.3 Safe Restart Agreement

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3.3 **Program Specific Reserves** – established in response to specific programs or special funding that has been received.

~~3.3.1 Land Ambulance~~

3.3.21 Planning – ~~Official Plan review~~

3.3.32 Libraries

3.3.43 Child Care Mitigation Funding

3.3.54 Rural Trees

3.3.65 Landfill and Waste Diversion (reserve fund)

3.3.76 Source Water Protection

3.3.87 Affordable Housing

3.3.98 Broadband Expansion

3.4 **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 refurbishment needs of the underlying capital assets, based on lifecycle costing.

3.4.1 Facilities

3.4.2 Roads

3.4.3 Bridges

3.4.4 Fleet

3.4.5 Water – Townships

3.4.6 Water – Ingersoll

3.4.7 Water – Tillsonburg

3.4.8 Water – Woodstock

3.4.9 Wastewater - Embro

3.4.10 Wastewater – Drumbo

3.4.11 Wastewater – Ingersoll

3.4.12 Wastewater - Innerkip

3.4.13 Wastewater – Mt. Elgin

3.4.14 Wastewater – Norwich

3.4.15 Wastewater – Plattsville

3.4.16 Wastewater – Tavistock

3.4.17 Wastewater – Thamesford

3.4.18 Wastewater – Tillsonburg

3.4.19 Wastewater – Woodstock

3.4.20 Information Systems

3.4.21 Social Housing

3.4.22 ~~Land Ambulance~~Paramedic Services - Stations

3.4.23 ~~Land Ambulance~~Paramedic Services - Vehicles and Equipment

3.4.24 Facilities – Libraries

3.4.25 Woodingford Lodge – Equipment

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4.0 Reserves and Reserve Fund Sustainability Strategies

Reserve and reserve fund preservation and sustainability has become more prevalent over time with the reduction of transfer payments from other levels of government to support local services. Municipalities are facing financial challenges to meet service level expectations and must seek other means of sustaining an appropriate level of reserves through increased revenues. The following strategies are designed for specific revenue streams to reserves:

4.1 **Interest Allocations** – the following reserves, not represented by a reserve fund with segregated assets, shall receive, or be charged, an allocation of interest in the year, based on the quarterly average of the County's average-monthly interest rate earned on its current bank deposit balances, to each of the reserves calculated on their average opening and ending balances for the-yeareach quarter.

- 3.5.1 Insurance
- 3.5.2 Facilities
- 3.5.3 Roads
- 3.5.4 Bridges
- 3.5.5 Fleet
- 3.5.6 Water – Townships
- 3.5.7 Water – Ingersoll
- 3.5.8 Water – Tillsonburg
- 3.5.9 Water – Woodstock
- 3.5.10 Wastewater - Embro
- 3.5.11 Wastewater – Drumbo
- 3.5.12 Wastewater – Ingersoll
- 3.5.13 Wastewater - Innerkip
- 3.5.14 Wastewater – Mt. Elgin
- 3.5.15 Wastewater – Norwich
- 3.5.16 Wastewater – Plattsville
- 3.5.17 Wastewater – Tavistock
- 3.5.18 Wastewater – Thamesford
- 3.5.19 Wastewater – Tillsonburg
- 3.5.20 Wastewater – Woodstock
- 3.5.21 Information Systems
- 3.5.22 Social Housing
- 3.5.23 Land Ambulance Paramedic Services - Stations
- 3.5.24 Land Ambulance Paramedic Services - Vehicles and Equipment
- 3.5.25 Facilities – Libraries
- 3.5.26 Woodingford Lodge - Equipment

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4.2 Annual Allocation of Operating Surpluses

Annual year-end audited operating surpluses allocated as follows:

- 4.2.1 Waste collection surplus funded through user fees allocated to the Waste Collection reserve.
- 4.2.2 Legal expense surplus allocate to Legal reserve.
- 4.2.3 Training expense surplus allocated to the Training reserve.
- 4.2.4 Library surplus allocated to Libraries reserve.
- 4.2.5 Landfill surplus funded through user fees allocated to Landfill and Waste Diversion reserve fund.
- 4.2.6 Source Water Protection funded through user fees allocated to Source Water Protection reserve.
- 4.2.7 Housing surplus allocated to the Affordable Housing reserve.
- 4.2.8 Water and Wastewater Systems funded through user fees allocated to their respective systems' reserve.
- 4.2.9 Tree harvesting revenue surplus allocated to the rural trees reserve.
- 4.2.10 The resulting consolidated County operating surplus after all the above allocations have been accounted for allocated as follows:
 - i. 25% allocated to the Corporate General Reserve;
 - ii. 50% allocated to the Roads ~~Capital~~ Reserve;
 - iii. 20% allocated to the Bridges ~~Capital~~ Reserve;
 - iv. 5% allocated to the ~~Social~~ Housing ~~Capital~~ Reserve.

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4.3 Annual Reporting and Monitoring

An annual review of cash flow requirements and appropriate fund balances shall be undertaken to determine whether modifications are appropriate for the reserve policy.

On the basis of the annual policy review, the following year's budget report will include a current year reserve continuity schedule and a five year projected reserve balance schedule reflecting the reserve provisions contained in the budget.

Appendix A
Reserve and Reserve Funds

Reserve Name	Target Balance	Sources of Funding	Uses of Funding
Stabilization Reserves			
Corporate General	15% of the County's current year's tax levy	Operating budget and 25% of year-end County operating surplus	Emergency and unplanned situations; and tax stabilization due to significant assessment appeals beyond operating budget provisions and capping shortfalls ; as determined appropriate by <u>resolution of Council</u> ; and current year end County deficits
Water/Wastewater Community Servicing Assistance Program	Balance projected through most recent regular water rate review that will meet the future requirements of the fund	No current funding sources	According to CSAP By-Law 5345-2012
Waste Collection	40% of estimated annual bag tags sales based on prior 3 year's sales	Year-end surplus from waste collection efforts (funded by bag tag user fees)	To fund deficits in waste collection program
Legal	Two times the average annual legal costs based on prior three years – no less than \$500,000	Year-end surplus from legal expenses until target balance is met	Significant OMB or other unbudgeted or extraordinary legal matters
Insurance	Average costs to the County expended on claims below the deductible plus claims billed back by the insurer in the past five years – no less than \$1,750,000	Operating budget; and interest earned based on average balance	Unbudgeted self insured claims, non-insurable claims and claims less than the County's insurance deductible; and to mitigate significant increases in insurance premiums
WSIB	Based on 75% of triennial actuarial evaluation	Operating budget	To fund significant and/or unbudgeted WSIB claims and employee injury related costs
Pay Equity	2% of payroll	Operating budget	Fund pay equity adjustments retroactive to prior years or unanticipated adjustments in current year
Training	\$250,000	Year-end surplus from training expenses until reserve target has been met	Training programs having corporate significance as determined by the CAO
Working Funds	10% of the County's current year's tax levy	Operating budget	To support corporate cash flow

Appendix A
Reserve and Reserve Funds

Reserve Name	Target Balance	Sources of Funding	Uses of Funding
Government Funded Reserves			
Canada Community-Building Fund	N/A	Federal Government – administered by AMO	New incremental capital spending on infrastructure including local roads, bridges and active transportation such as bike lanes that enhance sustainability outcomes in accordance with the Keeping Canada's Economy and Jobs Growing Act
Ontario Community Infrastructure Fund	N/A	Government of Ontario under Ontario Community Infrastructure Fund Agreement	Capital spending on renewal, rehabilitation and replacement of core infrastructure assets. Eligible project categories include: paved roads, street lighting as part of a roads project, bridges and culverts, water treatment, water distribution/transmission, wastewater treatment and disposal, sanitary sewer systems and storm water systems, subject to restrictions. The development and implementation of asset management plans for core infrastructure assets are also eligible. The Agreement sets out the eligible projects/categories as well as the terms and conditions in further detail.
Safe Restart Agreement	N/A	Government of Ontario under Safe Restart Agreement	Support any COVID-19 related operating need
Program Specific Reserves			
Planning	Average annual Official Plan and planning studies cost requirements based on equal cost installment cycle	Operating budget until target balance is met	Official Plan review, comprehensive amendments and planning related studies (e.g. secondary plans etc.)
Libraries	5% of Library's current year's tax levy	Operating budget, year-end Library operating surplus	Unbudgeted extraordinary operating or capital expenses to provide sufficient flexibility and protection for unforeseen events in the Library system, tax stabilization
Child Care Mitigation Funding	N/A	Provincial funding	To offset child care service costs to support transition to Ontario's new child care funding formula over three to five years

Appendix A Reserve and Reserve Funds

Reserve Name	Target Balance	Sources of Funding	Uses of Funding
Rural Trees	N/A	Surplus tree revenues over budget	To fund additional tree plantings over base budget
Landfill and Waste Diversion (reserve fund)	Future landfill expansion and capital costs	Annual surplus of the Landfill (generated exclusively from user fees); and interest revenue	Future maintenance costs and current capital improvements, future expansion and replacement costs; and funding programs that would extend the life of the landfill by waste diversion and sustainability efforts
Source Water Protection	N/A	Year-end surplus from Source Water Protection program (funded by user fees)	To fund spending deficits in the Source Water Protection program
Affordable Housing	N/A	Disposal of Land/Housing First Policy; year-end surplus from Housing division	Affordable housing incentives and capital expenditures associated with the development of new housing units
Broadband Expansion	N/A	Operating budget	Fund future broadband expansion in underserved areas
Capital Reserves			
Facilities	To meet lifecycle financing requirements based on Asset Management Plan for all County buildings (except libraries, land ambulanceparamedic services , <u>social</u> housing, water and wastewater facilities)	Operating budget; and annual net rental income from County-owned rural properties and facilities (excluding library, land ambulanceparamedic services , <u>social</u> housing, water and wastewater facilities) ¹	Capital repairs, maintenance, betterments and replacements of County-owned buildings and communication towers <u>and replacement of furniture and fixtures</u> (except libraries, land ambulanceparamedic services , housing, water and wastewater facilities); energy management programs to fund capital projects that would result in future energy savings; and emergency and unplanned repairs
Roads	To meet lifecycle financing requirements based on Asset Management Plan	Operating budget ¹ ; and surplus from capital road projects funded by taxation³ ; 50% of year-end County operating surplus	Funding roads, stormwater and drainage capital projects; budget adjustments at time of tender; road emergency or unplanned expenses
Bridges	To meet lifecycle financing requirements based on Asset	Operating budget ¹ ; and surplus from capital bridge	Funding bridge capital projects; budget adjustments at time of tender; bridge

¹ And interest earned based on average balance

Appendix A Reserve and Reserve Funds

Reserve Name	Target Balance	Sources of Funding	Uses of Funding
	Management Plan	projects funded by taxation ³ ; 15% of year-end County operating surplus	emergency or unplanned expenses
Fleet	To meet lifecycle financing requirements based on Asset Management Plan	Annual allocation based on internal charges to departments ³ <u>departments</u> ²	Replacement of rolling stock and equipment (excluding <u>emergency-paramedic</u> services vehicles and equipment). New initiatives to meet Green Fleet objectives. Fleet operating cost deficits when proceeds from equipment sales targets are not met.
Water – Townships	To meet lifecycle financing requirements based on Asset Management Plan	Annual surplus in operating system (funded by user fees) ^{3,2}	Funding of system capital projects; unplanned deficits of operating system; and emergency and unplanned expenditures in operating system
Water – Ingersoll			
Water – Tillsonburg			
Water – Woodstock			
Wastewater – Embro			
Wastewater – Drumbo			
Wastewater – Ingersoll			
Wastewater – Innerkip			
Wastewater – Mt. Elgin			
Wastewater – Norwich			
Wastewater – Plattsville			
Wastewater – Tavistock			
Wastewater – Thamesford			
Wastewater – Tillsonburg			
Wastewater – Woodstock			
Information Systems	Average annual replacement requirements for hardware and corporate software in accordance with replacement policy for hardware; and shared municipal network infrastructure	Annual allocation based on internal charges to departments ²	Replacement or upgrades of computer hardware and to fund software upgrades or acquisition having corporate benefit, including shared municipal network equipment. Computer and network infrastructure security and insurance/ <u>self-insurance</u> not associated with regular and reoccurring expenditures.

² And interest earned based on average balance

Appendix A
Reserve and Reserve Funds

Reserve Name	Target Balance	Sources of Funding	Uses of Funding
<u>Social</u> Housing	To meet lifecycle financing requirements based on Asset Management Plan for all County-owned Housing buildings	Operating budget ⁵ budget ³ ; 5% of year-end County operating surplus	Capital improvements to existing social housing stock, <u>including replacement of furniture and fixtures</u>
Land Ambulance Paramedic Services – Stations	To meet lifecycle financing requirements based on Asset Management Plan for County-owned Land Ambulance Paramedic Services Stations	Dedicated funding provided by the Ministry of Health and Long-Term Care ⁵ Care ³	Capital repairs, maintenance, betterments and replacements of County-owned Land Ambulance Paramedic Services Stations
Land Ambulance Paramedic Services – Vehicles and Equipment	To meet lifecycle financing requirements based on Asset Management Plan	Dedicated funding provided by the Ministry of Health and Long-Term Care and proceeds from <u>vehicle and equipment</u> sales ⁵ sales ³	Replacement of Land Ambulance Paramedic Services vehicles and equipment
Facilities – Libraries	To meet lifecycle financing requirements based on Asset Management Plan for County-owned library buildings	Operating budget ³	Capital repairs, maintenance, betterments and replacements of County-owned library buildings
Woodingford Lodge - Equipment	To meet lifecycle financing requirements	Operating budget and proceeds from equipment sales ⁵ sales ³	Replacement of Woodingford Lodge furniture and fixtures, and equipment including lifts and dietary equipment

³ And interest earned based on average balance