

CORPORATION OF THE COUNTY OF WELLINGTON

Long-Term Financial Sustainability Strategy

THE LONG-TERM FINANCIAL SUSTAINABILITY STRATEGY

FOR THE CORPORATION OF THE COUNTY OF WELLINGTON



FOR INFORMATION ON PROGRAMMES
AND SERVICES, OR TO OBTAIN A COPY
OF THIS DOCUMENT, PLEASE CONTACT:

THE COUNTY OF WELLINGTON
74 WOOLWICH ST, GUELPH, ON, N1H 3T9
519.837.2600
WWW.WELLINGTON.CA

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SECTION 1: INTRODUCTION



INTRODUCTION

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 County is facing a number of challenges, including uncertain funding from upper-levels of government, provincial property tax policy whereby rural municipalities must self-fund the farm tax rebate; a large geographic area with low population density; an aging population; climate change and environmental concerns; as well as increased regulation and legislation that is putting pressure on programme and service delivery. This is occurring at the same time as taxpayers are looking to governments to do more with fewer resources, creating an environment in which there is little appetite for tax increases.

To address the increasing financial pressure that County of Wellington is facing, the Long Term Financial Sustainability Strategy has been developed. 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.

Background

The County of Wellington provides community and infrastructure services to more than 97,000 residents and over 3,400 businesses across 7 municipalities. Wellington has a strong, stable and expanding economy, with the key industries being manufacturing, agriculture, health care and the creative economy. The County works closely with its area municipalities and other levels of government to ensure that services are delivered effectively and efficiently.

County Council and staff are committed to providing the best value to our taxpayers to preserve our core services, drive strategic investments and address the infrastructure deficit. Resources are required to support the County's investment in infrastructure, currently valued at \$1.2 billion¹, such as roads, bridges and culverts, and affordable housing. The County also provides services related to the health and well-being of its citizens and community, including child care; affordable housing; long-term care; paramedic services; policing; public health; social assistance; waste management services; public libraries and the Wellington County Museum and Archives (WCMA).

¹ County of Wellington Asset Management Plan, 2018 Year-End value

OVERVIEW

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. It is guided by a set of nine financial principles (page 10) that support the three pillars of financial resiliency (financial sustainability, financial vulnerability and financial flexibility) as endorsed by the Chartered Professional Accountants of Canada.

The Strategy provides Council with better long-term financial information when it considers significant policy decisions that have an impact on services. It ensures that factors such as the residential tax impact, debt and reserve levels, and value for money are considered when making these decisions. With the County's annual operating budget amounting to over \$220 million ², the Long Term Financial Sustainability Strategy provides a consistent approach in evaluating the long-term financial impact of proposed changes to services and service levels to the community.

The County of Wellington provides continued investment in local infrastructure including roads, bridges and public works facilities, local hospitals, ambulance stations, and the development of Riverstown Landfill, as well as a variety of services for residents. Some of the services that the County of Wellington provides through its budget include:

- Maintaining 1,438 lane kilometers of roadway, 107 bridges, 90 culverts, 241 signalized intersections, and 6 roundabouts
- Supporting 3,119 social housing units and 131 directly-owned affordable housing units
- Service delivery at 14 Library branches, and the Wellington County Museum and Archives
- 176 long-term care beds
- Directly operating 4 child care centres
- 8 Public Works Facilities / Garages
- Waste removal and recycling services, including 1 active landfill site, 5 transfer stations and 16 closed landfill sites
- Supporting the public health unit
- Administration of Ontario Works
- Ambulances and 3 municipally-owned OPP stations



² County of Wellington 2019 Budget and Ten-Year Plan

SECTION 2: LONG-TERM SUSTAINABILITY



LONG-TERM FINANCIAL PLANNING

The Long Term Financial Sustainability Strategy will help to ensure that the County of Wellington appropriately maintains its assets through its \$371 million 10-Year Capital Plan³ and that services are not disrupted. In addition, the strategy will link to the County's Asset Management Plan and provide enough funding in order to replace long-term assets when they reach the end of their life cycles. These assets include the County's roads and bridges, affordable housing, waste facilities, long-term care homes, and buildings. In addition to maintaining assets, the 10-Year Plan also supports infrastructure requirements to service the County of Wellington's growing population and businesses. The County of Wellington's population is expected to grow to 140,000 by 2041 (a 44.8% increase from mid-2017) along with it an increase in expected growth in business and employment activities.

The changing demographics of the County, including an aging population, the requirement to plan for climate change and an increased focus on environmental concerns, have introduced new challenges for Wellington that require long-term planning. For example, the County is investigating the construction of a Continuum of Care facility that would enable the County to meet the housing and support needs of seniors.

Wellington recognizes that the residents and communities it serves need important municipal services to thrive, and that its constituents are trying to manage their budgets with limited dollars. The Strategy will assist Council in finding the appropriate balance to serve its citizens and businesses. The County's long-term financial planning process aims to create a local government that is financially resilient. This means that the County is able to provide services to its residents and ratepayers at a reasonable cost while maintaining its ability to absorb external shocks, including economic downturns, severe weather conditions, and policy changes by other levels of government.

The Long-Term Financial Sustainability Strategy is founded on balancing the three pillars of resiliency:

1. **Financial Sustainability:** addresses the County's stability. It is the ability to provide and maintain service and infrastructure levels without resorting to unplanned increases in rates or cuts to services.
2. **Financial Vulnerability:** addresses the County's vulnerability to external sources of funding that it cannot control. It is focused on minimizing the level of risk that could impact the County's ability to meet existing financial obligations and commitments, including the delivery of service.
3. **Financial Flexibility:** is the County's ability to issue debt responsibly without impacting the County's credit rating or ability to generate required revenues. It is the County's capacity to change debt or tax levels to meet financial obligations.

Collectively, these pillars will provide a holistic perspective of the County of Wellington's financial position.

³ County of Wellington 2019 Budget and Ten-Year Plan

FINANCIAL SUSTAINABILITY PRINCIPLES

Financial Sustainability

The County of Wellington efficiently manages its resources with a view to ensuring the current needs of its citizens are met without jeopardizing the ability for future generations to meet their own needs. This requires long term planning through multi-year budgeting. The County annually prepares a multi-year operating and capital forecast that provides for consistent contributions to reserves and reserve funds and recognizes the ongoing operating costs associated with capital projects.

This diligent reserve and reserve fund management allows the County to avoid the issuance of debt for the repair, rehabilitation, and replacement of existing assets where possible, build up funding for future liabilities such as landfill closure and post-closure costs and provides contingency funding for unexpected events. The County recognizes its responsibility to provide good stewardship of public assets and has prepared ten-year asset management plans for the majority of its capital assets including roads, bridges, culverts and County owned social housing units.

Financial Vulnerability

As the amount of funding flowing from higher levels of government is declining, it is important that the County manage its existing revenue sources effectively. The County actively manages its property tax assessment base to ensure that properties are added to the roll in a timely manner and are assessed in a fair and consistent basis. The County is currently implementing its Economic Development Strategic Plan to assist current business owners in their continued success and to attract new investment into the County to increase commercial and industrial assessment. As well, the County charges user fees and collects development charges to assist with funding where appropriate.

Financial Flexibility

The County of Wellington has maintained a stable credit rating of AA+ since 2014, in part due to its manageable debt load and high liquidity. Both of these characteristics provide the flexibility to adapt to external challenges such as extreme weather conditions or reduced funding by higher levels of government. The County's manageable debt load requires lower fixed debt servicing and allows for more funding to be available for operations.

The Capital Budget, Lease Financing and Debt Management Policy governs the preparation of the capital budget and financing of the County's long-term infrastructure and facility requirements. The policy provides a debt management framework that establishes debt limits, debt structuring and debt issuance procedures in accordance with industry best practices.

FINANCIAL PRINCIPLES

A set of nine financial principles has been developed to guide the County Council and staff when making decisions relating to service and programme planning. These principles are intended to be used in an integrative fashion to achieve overall financial resiliency.

These financial principles are:

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



FINANCIAL PRINCIPLES

1. Ensure Long-Term Financial Health

The County's financial position, funding sources, and resource allocations will allow it to continue to achieve its obligations over the long-term, without undue pressure on taxpayers. The operating impact of capital expenditures should be reviewed to ensure it is sustainable and affordable.

2. Predictable Infrastructure Investment

Investment in infrastructure will be based on long-term requirements and consider the level of service, guided by the Asset Management Plan. The County will not allow for unplanned reduction in service levels or permit County infrastructure to deteriorate.

3. Responsible Debt Management

The amount and cost of servicing new debt will not negatively affect the County's credit rating. Debt will be used for specified capital programmes at levels affordable to taxpayers, as per the Capital Budget, Lease Financing and Debt Management Policy.

4. Strategic Use of Reserves and Reserve Funds

Reserves and Reserve Funds will be funded to the levels required for their purposes, as set out in the Reserve and Reserve Funds policy. This will allow the County to have a degree of liquidity in order to address unforeseen challenges or to make investments in appropriate capital projects, while protecting the County's credit rating. The County will make prudent investments that take into account the length of time to investment in order to maximize returns and provide the optimal utilization of its cash resources, in accordance with its Cash and Investment Management Policy.

5. Competitive Property Taxes

The County will strive to achieve reasonable and responsible property tax rates to ensure that the County Council's highest priority programmes are maintained. This ensures that the County continues to be a desirable place to work, live, and play.

FINANCIAL PRINCIPLES

6. Deliver Value for Money

The County will act in the best interest of the taxpayer by providing quality service at an affordable cost. The County will continuously seek efficient and quality improvements in the way services are managed and delivered. The County will utilize performance management and measurement as well as programme evaluation to ensure that the needs of residents are fulfilled effectively and efficiently.

7. Appropriate Funding for Services

The County will determine how and when user fees are utilized, and ensure that 'growth pays for growth' with the application and consistent review of development charges. When determining user fees, service level costs and the full costs of the service, including direct, indirect, and capital costs, will all be considered, as per the User Fee Policy.

8. Diversify our Economy and Enhance our Assessment Base

Economic Development activities at the County are centered around five key priorities and actions: growing key industries, attracting talent, supporting business, planning for the future, and promoting Wellington County. In 2015, the County completed an Investment Attraction Strategy that recognized key opportunities for the agriculture, manufacturing, healthcare, and creative professional sectors. The County has also conducted several Business Retention and Expansion programmes, including signage, the County Community Improvement Plan, and the Downtown Development plan. Enhancing the assessment base is enabled by the Assessment Base Management Policy and Programme, which will ensure that the County and its member municipalities have access to all of the tax revenue for which they are entitled, and to promote greater equity in the property tax system by ensuring that every ratepayer is paying their fair share—no more, no less.

9. Protect and Preserve Intergenerational Equity

The County will ensure that the burden of maintaining infrastructure, supporting vulnerable communities, and enabling County residents to thrive is not borne by a single generation. Rather, the County will strive to maintain a strong financial position while establishing fair sharing in the distribution of resources and obligations between current and future taxpayers.

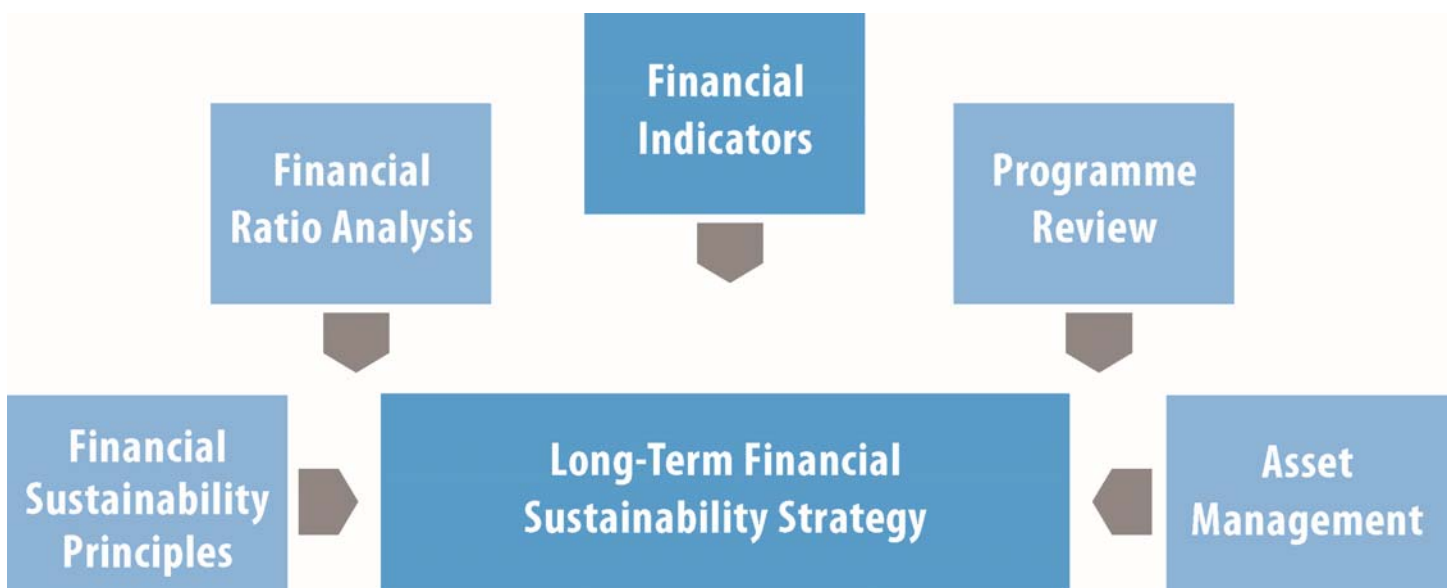
INTEGRATION OF STRATEGY



EVALUATION OF STRATEGY

The Long-Term Financial Sustainability Strategy is iterative, and needs to be reviewed regularly to ensure that it accurately reflects the current position and future needs of the County. The review of the Long-Term Financial Plan incorporates budget variances, asset management needs, and programme evaluations, to ensure that County is able to deliver excellence in service provision and value for money.

The County's financial position will be evaluated in terms of the three **financial sustainability principles** (sustainability, vulnerability, and flexibility) as a general indicator of the health of the County's financial position. **Key financial ratios** and **financial indicators** will be compared over time and across other municipalities to ensure that the County is achieving its goals efficiently and effectively. **Programme review** will be conducted to evaluate the cost-effectiveness of County programmes and services, to ensure that County residents have access to the programmes they desire. Finally, **asset management** needs of the County will be evaluated regularly to ensure assets are appropriately maintained and that sufficient funds are available to replace long-term assets at the end of their life cycle.



FINANCIAL RATIO ANALYSIS SCORECARD

Indicator	Objectives
Credit Rating	The County strives to maintain and improve upon its strong AA+ rating from Standard and Poor's.
Capital Expenditures / Total Expenditures	Maintain strong trend of capital investment.
Modifiable Revenue / Total Operating Revenue	Maintain positive budget flexibility, with modifiable (own source) revenues making up a significant portion of adjusted operating revenues.
Operating Balance / Total Operating Revenue	Maintain a strong operating surplus as a share of adjusted operating revenues, in line with the previous five-year average of approximately 15%.
After-Capital Balance / Total Operating Revenue	Manage after-capital balance to ensure that revenues match expenses.
Free Cash and Liquid Assets / Debt Service	Maintain strong liquidity position, ensuring that debt service costs are adequately covered with cash and liquid assets.
Tax Supported Debt* / Total Operating Revenue	Maintain a degree of manageable debt, ensuring that tax-supported debt of both upper and lower tier municipalities does not comprise the majority of operating revenues.
Tax Supported Debt (County only) / Total Operating Revenue	Maintain tax supported debt to ensure that it does not exceed 30% of operating revenues.
Debt Interest / Total Operating Revenue	Maintain a positive, stable ratio, which indicates the proportion of the County's adjusted operating revenues that are committed to funding debt interest charges.
Debt to Reserve	Maintain a positive, stable ratio, indicating that the County is adequately able to support its debt commitments with reserves and reserve funds.

* Includes lower-tier municipalities.

FINANCIAL INDICATORS SCORECARD

Indicator	Objective
<u>Sustainability</u>	
Financial Position per Capita	Maintain positive position, reflecting that total liabilities do not exceed total assets.
Net Financial Liabilities Ratio	Maintain negative ratio to ensure that assets exceed liabilities.
Asset Consumption Ratio	Monitor asset consumption ratio to ensure assets are adequately maintained and risks to service disruption are minimized.
<u>Flexibility</u>	
Tax Discretionary Reserves as a % of Taxation	Maintain healthy tax discretionary reserve levels.
Tax Discretionary Reserves per Capita	Maintain healthy tax discretionary reserves per capita.
Tax Discretionary Reserves as a % of Own Source Revenues	Maintain tax discretionary reserves as a significant proportion of own source revenues.
Tax Debt Interest as % of Own Source Revenue	Maintain low amount of debt interest payments relative to own source revenue.
Debt Charges as % of Adjusted Operating Revenue	Interest payable annually as a proportion of adjusted operating revenues (excluding non-cash items) should not exceed 5%.
Debt Outstanding Per Capita	Maintain declining level of debt outstanding per capita.
Debt Outstanding Per Own Source Revenue	Maintain healthy proportion of debt outstanding relative to own source revenue.
Debt to Reserve Ratio	Maintain a debt to reserve ratio below 0.75:1 indicating that the County has more reserves than long-term debt.
<u>Vulnerability</u>	
Rates Coverage Ratio	Own source revenue at least 40-60% of total expenditures.

GLOSSARY OF TERMS

Term	Definition
Asset Management	A combination of management, financial, economic, engineering and other practices applied to physical assets with the objective of providing the required level of services in the most cost-effective manner, at an acceptable level of risk through the lifecycle of the physical assets.
Financial Condition	The status of the County of Wellington's assets, liabilities, and overall financial position at a specific point in time
Financial Condition Scorecard	An analysis of the trends – using key performance indicators – that have an impact on the County of Wellington's financial position. It compares the County's performance on key financial indicators over time, and across comparable municipalities.
Financial Environment	The factors influencing the financial position of the County, including economic indicators, employment, and demographic factors.
Financial Flexibility	The ability to issue debt responsibly without impacting the credit rating or ability to generate required revenues. It is the ability to change debt or tax levels to meet the County's obligations.
Financial Health	The status of the County of Wellington's assets, liabilities, and overall financial position at a specific point in time.
Financial Indicators	Key metrics used in evaluating the financial health of the County. These include assessments of County debt, revenues, and expenditures.
Financial Principles	Principles that guide staff and Council on decisions related to service and programme planning. These principles inform policies and actions, and will be used in an integrated fashion to achieve an appropriate balance between overall financial health and service sustainability.
Financial Sustainability	The ability to provide and maintain service and infrastructure levels without resorting to unplanned increases in rates or cuts to service. It is the ability to meet present needs without compromising the ability to meet future needs.
Financial Vulnerability	Degree to which we are dependent on sources of funding outside of our control or influence or are exposed to risks that could impair our ability to meet existing financial obligations and commitments
Fiscal Impact Model	A model developed to illustrate the impacts of short-term and long-term decisions on the financial health of the County. It is updated on a regular basis as more information becomes available, and integrates the long-term capital plans and operating expenditures of all County departments and programmes.
Integrated Planning	A coordinated and client-centered approach to planning; it creates a stronger link between the Strategic Plan, program planning, operations, measurement, and annual budget to ensure strong fiscal and administrative responsibility
Long Term Financial Sustainability Strategy	An overview of expenditures, revenues, and tax rates that integrates the operating and capital forecasts of County departments.
Performance Management	A process of gathering information to make evidence-informed decisions and to monitor progress toward a desired result or goal.
Performance Measure	A particular value or characteristic that describes inputs, processes, outputs and outcomes in a tangible way
Prudence	Management standard that requires individuals with authority to manage County finances to act prudently and with caution, discretion, loyalty and care.
User Fee	Fee or charge to individuals or groups and/or businesses for the provision of a service, activity, or product.



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