TOWN OF HALTON HILLS
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Appendix A To

MEMO-CORPSERV-2021-0007

Long Range Financial Plan Update

June 2021

INTRODUCTION

The Long-range Financial Plan (LRFP) is a living financial model that is updated annually in advance of the upcoming budget process and uses principles, policies and strategies to guide Council and staff in financial decision-making. This LRFP update is dated June 2021 and incorporates all relevant information available at that time.

For a sustainable LRFP, it is critical to align the capital program with a realistic timing of growth and funding capacity to minimize the funding gap. At the time of updating the LRFP, however, the uncertainties of COVID-19 posed significant challenges in the refinement of the capital programs due to the constantly changing environment and economic conditions.

In the face of these challenges, staff have updated the LRFP, in accordance with the guiding principles outlined below and extended the LRFP time horizon to 2031. The plan incorporates the 2021 Council approved operating and capital budgets; the results of the 2020 year-end financials; and the growth and financial assumptions based on the most-up-to date available information. A second LRFP scenario was also developed to meet a tax rate increase target of 3.9%.

Guiding Principles

The 2021 LRFP has been prepared based on the following guiding principles:

1. Annual tax rate target at or below 3.9%
2. Build and maintain sustainable reserve capacity
3. Optimize external debt financing
4. Repay interfund loans with new DCs at the earliest opportunity
5. Maximize DC funding to the extent available and allowable under the DC Act
6. Optimally align the timing of growth and growth-related expenditures
7. Ensure that funding is allocated to maintain critical assets in a state of good repair (SOGR)

Staff Approach

Staff followed a two-step approach to update the 2021 LRFP:

1. Create a Base Case Plan (A) for 2021
   The base plan was built using the 2021 approved budgets, all available strategic plans (eg: Corporate Technology, Transit Services and Asset Management), additional provisions for Climate Change and all known operating budget impacts. The base case also includes key assumptions that are outlined below.

2. Create an amended Base Case “Revised Plan Scenario” (B)
   Staff incorporated a series of mitigation measures into the base case version to create a revised LRFP scenario that would be affordable, sustainable, and meet the target 3.9% tax rate increase.

Key Assumptions

The following are the key assumptions built into the plan:

- General inflation rate - 2.0%
- Interest rate on reserves - 2.7%
- Debt financing rate
  - 3.0% (10-year)
  - 3.5% (20-year)
- Capital expenditure financing based on Council approved Debt Management Policy (CORP-2019-0002) and General Reserve and Reserve Fund Policy (PLCY-2018-0004)
- Projected assessment growth resulting from growth assumptions will occur 1 to 2 (or 3) years behind the issuance of building permits – subject to growth type
- Capital funding will continue to be available from a number of sources
- Provincial subsidies will be maintained at current levels (e.g. federal Canada Community-Building Fund (formerly Gas tax), provincial Gas Tax, and Ontario Community Investment Funds (OCIF))
- There will be no changes to the Town’s existing services or levels of service, beyond the levels currently approved, based on the understanding that any further change in services or service levels will impact the LRFP forecast.
- The following Council approved strategic initiatives have not yet been fully incorporated into the 2021 LRFP and will be considered in future updates:
  - Active Transportation Master Plan (TPW-2020-0024)
  - Parkland Acquisition

- The 2021 LRFP update does not include any potential impacts resulting from changes to the *Development Charges Act* (DCA) and the *Planning Act* (PA), including the impact of Community Benefit Charges (CBC). These will be incorporated into the 2022 LRFP update, upon approval of the new by-laws.
- Growth assumptions are based on input from the following departments: (Planning & Development, Economic Development, and Zoning & Plans review.) The assumptions are based on the best information available to date, including the Region's Allocation Program, Town's Secondary Plan, industrial land inventory reviews, and knowledge of development projects currently in the consultation/planning process.

DETAILED ANALYSIS - LRFP BASE CASE AND REVISED LRFP SCENARIO

The following section includes a detailed analysis of both the LRFP base case (A) and the revised plan scenario (B).

A. LRFP – Base Case

A.1. Growth Assumptions & Revenues

Residential Development

A total of 10,483 residential units are projected between 2021 and 2031, with 5,905 units anticipated in the Vision Georgetown area, 4,262 units in the remaining Georgetown area and 316 in Acton and the hamlet areas. Out of the 10,483 units, 1,524 units (15%) are expected within the first three years of the planning period (2021 – 2023).

Vision Georgetown

The current LRFP assumes that growth in Vision Georgetown will commence in mid to late 2023. This start date, and subsequently the associated DCs and receipt of assessment growth revenue is subject to potential delays.

Non-residential Development

A total of 12.3M sq.ft. of non-residential growth is expected to occur between 2021 and 2031, with 10.8M sq.ft primarily driven by industrial growth in the Premier Gateway area. Of the total 10.8M sq.ft., 5.2M sq.ft. have been linked to potential development projects between 2021 and 2026.

Future growth in the Premier Gateway area (east of 8th line) is contingent upon various constraints, including Provincial studies, a Secondary plan, and the installation of

Regional water/ wastewater servicing (including a feasibility study). Any delays in the settlement of appeals and/or approval of studies will impact the assumptions included in the 2021 LRFP.

Development Charge (DC) Revenues

Growth in recent years has been limited and the lower trend in residential development in particular, is expected to continue in the near future based on growth assumptions discussed above. The DC revenues follow the same trend, with an estimated revenue of $5.2M in 2021. DC revenues are expected to rise modestly in 2022, driven by non-residential projects currently in the consultation process and rise further in 2023 and beyond as the Vision Georgetown and other non-residential developments proceeds.

Assessment Growth

Based on the recent growth trend and forecast, the LRFP currently projects that the Town will see less than 1% in assessment growth over the next four years (0.7% and 0.8% growth for the 2021 and 2022 tax years respectively). This is a significant drop from what the Town has experienced in recent years (3.1% in 2019 and 2.5% in 2020). Assessment growth is expected to rise again following development in Vision Georgetown (assumed in the LRFP to commence in 2023) and as growth expands within the Premier Gateway.

A.2. Capital Expenditures & Impacts

The LRFP incorporated a total of $358M in capital program expenditures for the period 2021 to 2031, which consists of $324.5M for the approved 2021 ten-year capital plan (2021-2030) and an estimate for 2031, as well as $33.5M for the implementation of the Town's Asset Management strategy and Climate Change Initiatives.

The $358M program will be funded by operating contributions and federal/ provincial funding ($240.7M, 67%); DCs ($67.8M, 19%); and debt ($49.5M, 14%).

Based on the timing of capital projects currently planned and the detailed analysis of the resulting reserve cash flows, financing of the capital program will require significant capital investment from DCs and capital reserves within the next three years. This upfront-heavy funding requirement from reserves is expected to result in a temporary depletion of capital reserve balances between 2021 and 2023.

The current capital program also includes $49.5M of debt financing, of which $25M (50%) is designated in 2022 for Gellert Phase 2 construction. As a result, the outstanding debt principal will grow from $21.2M in 2020 to $40.2M by 2023 and annual debt charges (principal and interest) from $5.0M in 2020 to $5.5M by 2022.

Interfund Loans (Internal Financing)

The timing and magnitude of the growth-related capital projects requiring DC funding have surpassed the available DC funding over the past few years, requiring internal financing from Town reserves ($21.7M as of the 2020 year-end.) The LRFP projects low DC collections in the short-term and will result in the need for additional internal financing. As such, it is expected that an additional $14.5M of interfund borrowing from capital reserves will be required between 2021 and 2028.

The cash flow analysis shows that the outstanding interfund loan balance is expected to peak at $27.6M in 2022 and gradually decline thereafter as the growth in Vision Georgetown and Premiere Gateway generates DC revenues that can be used to repay the loan. It is projected that the Town reserves will fully recover the loan (including interest) by 2030.

A.3. Operating Expenditures & Impacts

In addition to the impacts arising from the capital plan, the 2021 LRFP incorporates additional operating expenditures to support growth and to address pressures resulting from program strategies previously approved by Council (e.g. Transit service strategy, implementation cost of IT systems etc.). The combined total costs are expected to grow over time from approximately $1.4M per year in 2022 to $25.7M per year by 2031.

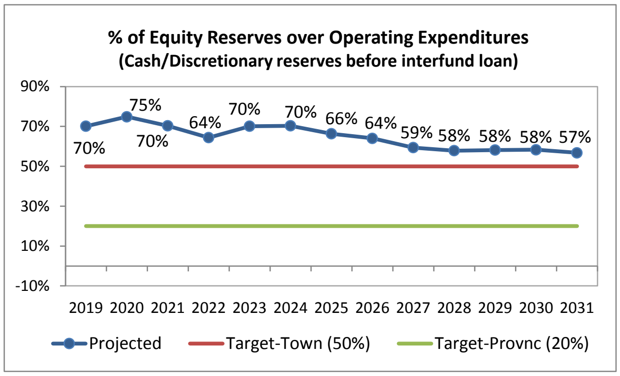
A.4. LRFP Base Case - Conclusion

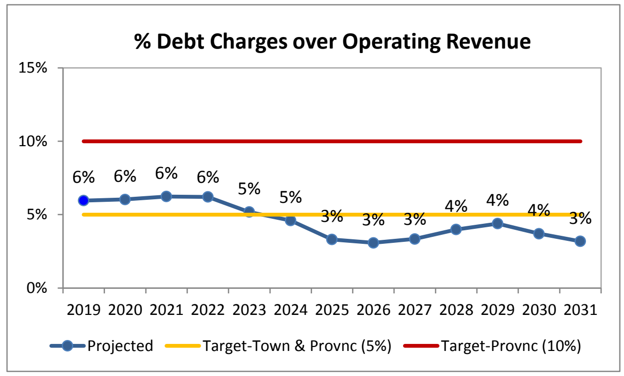
Based on the above, the Base Case demonstrates that the forecasted tax rate increases exceed the target level of 3.9% during the planning period, driven in main by:

- Additional debt charges required to fund the construction of Gellert Phase 2
- Additional costs to facilitate contract conversions, IT system implementations/ Corporate Technology strategic plan,
- Transit service costs
- Additional operating costs to support expanded assets (growth-related)
- Limited assessment growth projected at below 1.0%

These pressures also limit the Town's ability to contribute to reserves and result in gradually declining reserve ratios over time as shown in the chart (below left).

In addition, the projected debt ratios, as measured by the Provincial Financial Indicator (% debt charges over operating expenditures), are expected to remain in a moderate risk category (5% < 10%) for the next four years before trending down to the low-risk category (5% & below) thereafter as shown in the chart (below right),





B. LRFP – Revised Plan Scenario

As outlined above, the 2021 LRFP base case cannot be achieved within the target 3.9% tax rate increase. Following a detailed analysis of the base case, several adjustments were made, while maintaining the same growth assumptions.

Staff created the Revised Plan Scenario by focusing on reducing debt financing needs, aligning the timing of capital expenditures with the anticipated reserve capacity and the deferral of operating pressures to future years, while upholding the LRFP guiding principles.

B.1. Measures Required

The following measures were identified and built into the assumptions of the revised LRFP Scenario (B) to determine the range of changes required to meet the 3.9% target tax rate increase:

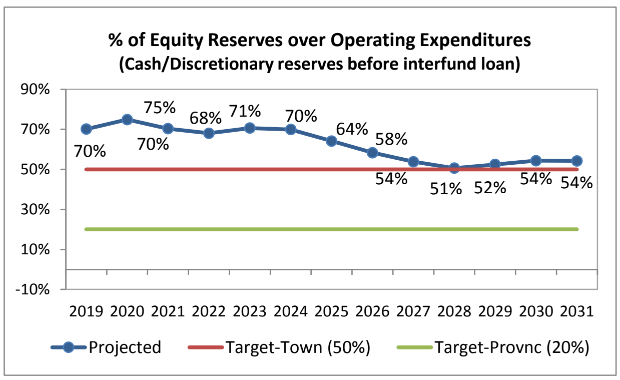
- Deferral and/or Alternate funding:
    - Gellert Ph2
    - Transit service strategy
    - Asset management & climate change initiatives provision (2022-2031) is reduced by $7.5M from $33.5M to $26M
    - Growth-related capital projects – projects totaling $3.6M
- Base capital programs totaling $750K annually are funded from reserves instead of being financed through annual operating contributions
- The contribution to capital reserves is reduced by $13M between 2022 and 2031
- Additional services and service level enhancements beyond 2021 levels are removed

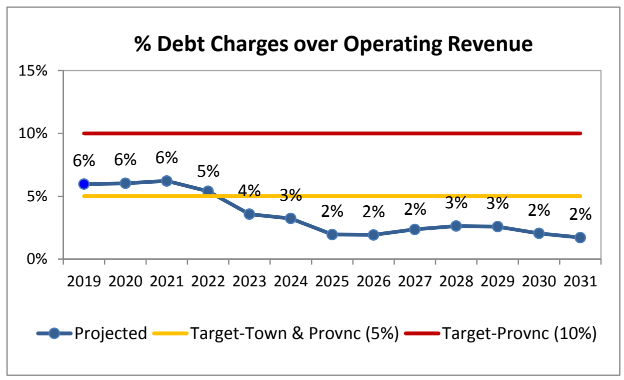
B.2. Projected Tax Impacts & Financial Positions

Based on the measures considered above, the impact under the Revised Plan Scenario is projected to meet the annual target of 3.9% during most of the forecast period. However, the immediate budgetary pressures to sustain existing levels of services, including rising insurance premium costs, IT system implementation, and additional provisions for WSIB, continue to generate tax impacts above the Council approved target in 2022 and 2023 – defined in annual budget process.

Under the Revised Plan Scenario, the reserve ratio (chart below left) is expected to decline gradually: from 70% in 2021 to a 51%-54% range between 2027 to 2031, compared to a 57%-59% range over the same period in the Base Case.

The debt ratio (chart below right) is expected to remain in a moderate risk category (5% < 10%) until 2023, compared to 2025 in the Base Case.





Conclusion and Next Steps

The 2021 LRFP - Base Case update results in forecasted tax rate increases that exceed the annual target tax rate increase of 3.9% throughout the planning period. As outlined above, these impacts are a result of the upfront funding required for capital programs and the additional operating costs which outpace the incremental revenues expected from growth (i.e. DC revenues and assessment).

Accordingly, to help ensure the Town's financial position remains sustainable and within the Council approved affordability target, the mitigation measures required to manage the financial planning horizon in the Revised LRFP scenario will be considered in the upcoming 2022 budget planning process.

The annual projected tax impacts will be defined at the time of the yearly budget approval. The LRFP is a planning tool to help guide those decisions.