

REPORT

REPORT TO: Mayor Bonnette and Members of Council

REPORT FROM: Moya Jane Leighton, CPA, CGA, Treasurer/Manager of Accounting

DATE: July 16, 2018

REPORT NO.: CORPSERV-2018-0031 (Revised)

RE: Long Range Financial Plan

RECOMMENDATION:

THAT Report No. CORPSERV-2018-0031 (Revised) dated July 16, 2018, regarding the Long Range Financial Plan, attached as Appendix A, be received for information;

AND FURTHER THAT Council directs staff to provide a financing strategy as part of the 2019 budget deliberations;

AND FURTHER THAT Council directs staff to bring forward a Debt Policy for Council's consideration.

BACKGROUND:

In early 2018, the Town of Halton Hills retained the services of Watson & Associates Economists Ltd. to develop a Long Range Financial Plan (LRFP) and a dynamic financial planning tool that can provide annual updates to the LRFP as assumptions change over time. The financial planning tool will enable:

- integration of key financial programs, i.e., operating and capital budgets
- customized reporting
- changes to variables factored into the model
- exploration of "what if" scenarios and the associated financial impact
- an analysis of:
 - funding/usage at the micro and project level
 - the best financing mix to support growth
 - debt optimization

COMMENTS:

The LRFP is a comprehensive financial plan that includes principles, policies and strategies to guide Council and staff in financial decision-making. This plan has considered the Town's 2018 Budget and Forecast, 2014 Asset Management Plan and the 2017 Development Charges Background Study. Plan details are included in Appendix A (attached).

The Town has maintained a 3.9% levy increase over the past several years. Currently, the Town's operating reserves are at 11% of the net levy and the capital reserves are \$401/capita. Current debt capacity utilization is 7.3% of own source revenue (e.g., property taxes and user fees).

The 2011 Long Range Financial Plan recommended the following guideline: "*The Town's debt charges, including debt charges related to DC's, as a percentage of tax levy, will not exceed 10% as considered acceptable by credit rating agencies.* Council endorsed this recommendation. The 2011 Plan also assumed a 10-year term for any new debt issuances. The proposed 2018 Long Range Financial Plan maintains the 10% guideline and assumes a 20-year term for new debt, reflecting the size of the capital program and the lifecycle funding requirements of the Town's assets. Staff is in the process of drafting a formal Debt Policy for Council's consideration at a future Council meeting.

The LRFP was developed based on two scenarios. Scenario 1 generally represents the 2018 Operating and Capital Budgets and 10-year Capital Forecast, with some minor additions for actual and anticipated projects. In this scenario, the proposed 10-year forecast is targeting the Town's operating reserves to be at 20% of the net levy, with a \$540/capita for capital reserves and a 3.7% debt capacity utilization, while keeping within an annual levy increase of 3.9%. (The operating and capital reserve targets are in line with averages of the GTA comparators). This maintains the operating service levels that were in place for 2018 with a few adjustments to address changes such as the Activan service operations, Fire communications, and the recently approved Planning fees.

Due to fluctuations in annual assessment growth over the 10-year forecast and cash flow constraints, staff will need to issue debt in the early part of the 10-year forecast and draw upon reserves to move towards the targets mentioned above. The model is projecting moderate growth over the forecast period, but is anticipating higher growth rates with the build out of the Vision Georgetown community and the employment lands in the Premier Gateway 401 Corridor.

In Scenario 2, the LRFP considered potential items not currently in the 10-year forecast. These include the Gellert Community Centre- Phase 2, the renewal of the Georgetown and Acton Indoor pools, recommendations arising out of the Corporate Technology Strategic Plan, an expansion of Town Hall, universal bus service, the sale of surplus Town lands, redemption of the Hydro promissory note and funding for the asset

management program. In addition, this scenario reflects a proposed addition of 8 full-time equivalent staff.

It should be noted that asset management planning will be a key component of the LRFP. The Town funds just over \$14M annually for the replacement/refurbishment of the Town's assets. Currently the Town is confirming asset information and will be producing a report on the state of these assets. Once the infrastructure deficit is verified, a phase-in plan will be developed to increase funding requirements and the LRFP will be revised accordingly using the financial planning tool. This revision will be presented to Council as part of the 2019 budget process.

The analysis of Scenario 2 assumed many of the same financial parameters as Scenario 1: a 3.9% annual tax rate increase; a capital reserve target of \$540/per capita and an operating reserve target of 20% of net levy. In comparison to Scenario 1, there would be an increase of \$105M in capital needs, an \$8M increase in net operating expenditures, and \$156M in additional debt funding. This would increase the percentage of net levy spent on debt to 12.5% (2.5% over Town policy). As some or all of these items are considered during 2019 budget deliberations, staff can measure the impact using the financial planning tool and present a revised LRFP to Council for review.

A further consideration not noted in the LRFP is the current uncertainty around provincial support for municipalities. Given the stated priorities of Premier Doug Ford, it is expected that there will be less funding for public programs, i.e., either a reduction of support or the elimination of programs altogether. Staff will continue to monitor any impact on existing Town programs that rely on provincial contributions and any changes around future funding opportunities.

The Town will be updating the financial planning tool annually and/or as critical variables shift (.e.g., growth assumptions); this will ensure that our planning strategies remain relevant and applicable.

RELATIONSHIP TO STRATEGIC PLAN:

This report supports the strategic objective:

Council's current "Top Eight" Priorities, 2014-2018

Financial Sustainability

Establish sustainable financing, asset management and master plans to acquire, operate, maintain, renew and replace infrastructure.

FINANCIAL IMPACT:

There are no direct financial impacts associated with this report. As staff prepare future budgets, starting in 2019, recommendations from this report will be incorporated into the Town's Operating and Capital Budgets based on Council's direction.

CONSULTATION:

Senior management and staff from all departments are participating in the development of the LRFP and its implementation.

PUBLIC ENGAGEMENT:

There is no public engagement impact.

SUSTAINABILITY IMPLICATIONS:

The Town is committed to implementing our Community Sustainability Strategy, Imagine Halton Hills. Doing so will lead to a higher quality of life.

The recommendation outlined in this report is not applicable to the Strategy's implementation.

COMMUNICATIONS:

Once approved, Corporate Services will advise Town staff involved in budget development the parameters for the annual Capital and Operating Budgets.

CONCLUSION:

The recommended LRFP for 2018-2027, as presented through Scenario 1, keeps the annual tax levy at 3.9% and adopts targets for debt and reserves that are consistent with GTA averages. Scenario 1 maintains the operating service levels that were in place for 2018 with a few adjustments to address changes to the Activan service operations, Fire communications, the recently approved Planning fees and other miscellaneous changes as identified by staff.

Scenario 1 of the LRFP will ensure that the Town's debt repayments do not exceed the established 10% of the tax levy. In order to manage cash flow fluctuations relative to new assessment and development charges, and in consideration of the forecasted capital program, debt will be issued for a 20-year term. Staff will provide a more formalized Debt Policy for Council's consideration.

Scenario 2 in the LRFP presents additions to be considered by Council as part of the 2019 budget deliberations. Any new items incorporated into the LRFP will be analysed in terms of the financial impact for Council's review.

The LRFP financial planning tool will be key when developing future operating and capital budgets and managing reserves and debt. Any significant changes to assumptions may require the Treasurer to re-evaluate the Town's fiscal policies and adjust the direction of the LRFP.

Reviewed and Approved by,

A handwritten signature in black ink that reads "Jane Diamanti". The signature is written in a cursive, flowing style.

Jane Diamanti, Acting CAO