TOWN OF HALTON HILLS
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REPORT

REPORT TO: Chair and Members of Budget Committee

REPORT FROM: Moya Leighton, CPA, CGA, MBA
Town Treasurer & Manager of Accounting

DATE: January 4, 2019

REPORT NO.: CORPSERV-2019-0009

RE: 2018 Long Range Financial Plan Update

RECOMMENDATION:

THAT Report No. CORPSERV-2019-0009 dated January 4, 2019 regarding the 2018 Long Range Financial Plan Update be received;

AND FURTHER THAT the amended 2018 Long Range Financial Plan financing strategy as outlined in this report below be approved.

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 could provide annual updates to the LRFP as assumptions change over time. The financial planning tool was developed to 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 availability
  - the best financing mix to support growth
  - debt optimization

Watson and Associates presented two scenarios at the end of their engagement. Scenario 1 generally represented 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 was 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, the Town would 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 projected moderate growth over the forecast period, but anticipated higher growth rates with the build out of the Vision Georgetown community and the employment lands in the Premier Gateway 401Corridor.

In Scenario 2, the LRFP considered potential items that were not incorporated into the 2018 10-year capital forecast. These included 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, a transit service, the sale of surplus Town lands, and the redemption of the Hydro promissory note In addition, this scenario reflected a proposed addition of 8 full-time equivalent staff.

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).

It was noted at that time that certain key information was not available to the consultants when the scenarios were being compiled, and staff were made aware of new information in the days leading up to the Special Council meeting. Of note,

- the Town was conducting a State of Infrastructure assessment to determine the extent of the infrastructure gap which needed to be reflected in the financing plans;
- the $16.5M Hydro promissory note that was assumed to be monetized in Scenario 2 was subordinated to a Commercial Bank;
- the debt load under Scenario 2 was substantial, and;
- Town staff had not yet been provided with the detailed financial model.

In light of the above, staff considered the two scenarios provided by Watson and Associates and determined that further refinements to the Long Range Financial Plan would be required, and presented a revised recommendation to Council as follows:

Report No. CORPSERV-2018-0031 dated July 16, 2018 was adopted by Council at the Special Council meeting on July 17, 2018 with the following recommendations:

> 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.

COMMENTS:

Following receipt of the model in August, 2018, Watson and Associates provided staff with training on its functionality. Staff spent the next few months working with the model and creating affordability scenarios. The model was updated to reflect the most up to date available information.

In addition, time was spent developing financial sensitivity indicators, using the Provincial Financial Indicator website and widely available municipal financial data published by management consultants, in order to establish the appropriate targets, comparisons and benchmarking.

Staff then analyzed the capital projects included in the 2017 Development Charge Background Study from the perspective of collectability of development charges from developers. This review looked at the timing of collections, in particular the portion of each project subject to delays in collectability due to the methodology of calculating post period benefits. Additionally, the capital projects were reviewed to ascertain the cost to tax payers of the unfunded amount related to the service cap calculation.

Research was also undertaken on debenture financing and consultations were held with the Region of Halton, regarding terms of debt. It is important to note that the Town of Halton Hills is a lower tier municipality and under the requirements of the Municipal Act, 2001, c.25, section 401 (3), does not have the power to issue its own debentures and must rely on the upper tier to do so on its behalf.

Once the preliminary 2019 budget and forecast numbers were made available, the model was further updated to finalize the financial plan. Staff used the results of this analysis to recommend the following:

- Reduce the 10-year capital program by $52M. Capital projects were selected based on expected realization of Development Charge collectability and high dependence upon interim funding from the tax payer. (These projects will be subject to ongoing annual review for affordability)
- Debt to be incurred to partially fund the 10-year capital program as follows:

Debt Term	2019	2020	2023	2024	2025	2026	2027	2028
10 Years	3,700,000	2,650,000	8,000,000	2,000,000	17,000,000	4,000,000	3,000,000	4,800,000
20 Years	-	18,000,000	-	-	-	-	-	-
	$3,700,000	$20,650,000	$8,000,000	$2,000,000	$17,000,000	$4,000,000	$3,000,000	$4,800,000

- Maximum debt term to remain at 10 years, with variances to this requiring special council approval.
- Additional 10-year debt of $1M to be incurred in 2019 to re-finance a user group agreement for the use of the Halton District School Board, Kiwanis field. Further details will be provided to Council in the upcoming weeks.
- Additional 5-year debt of $1,624,219 to be incurred in 2019 to repay SouthWestern Energy for the LED streetlight conversion initiative that the Town had undertaken over the past few years under a Memorandum of Understanding Agreement.
- The provincially reported debt servicing costs as a percentage of total revenues will remain in the moderate risk category until 2023 and again in 2026.
- The Council imposed debt cap of 10% of net levy will be exceeded until 2023 when a large portion of the existing debentures that the Town is carrying for the previous capital program are retired.
- Starting in 2022, invest $29.5M over a 7-year period to address the existing core infrastructure assets and mitigate any increasing infrastructure deficit.
- Operating budget transfers to reserves, offset by transfers to fund the capital program and new cash loans with repayments to development charges result in a net year over year impact on the total reserve balance as follows:

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Transfer from Operating Budget	$8.4	$7.3	$7.3	$7.2	$10.5	$11.7	$12.3	$12.3	$13.8	$15.1
Use Reserves for Capital Program	-$7.5	-$9.6	-$11.6	-$14.6	-$11.4	-$10.5	-$11.3	-$11.3	-$13.8	-$13.8
New loans/repayments - DCs	-$5.2	-$9.9	-$2.8	$3.1	$3.8	$3.8	-$2.7	$4.5	$4.5	$4.5
Cash receipts	$0.0	$12.2	$0.0	$16.5	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Net Impact on Reserves	-$4.4	-$0.0	-$7.1	$12.2	$3.0	$5.0	-$1.8	$5.5	$4.5	$5.8

The revised Long Range Financial Plan maintains the assumption that $12.2M will be received by the end of 2020 from the sale of surplus Town lands and that $16.5M in cash will be received from Halton Hills Hydro once the note receivable is monetized in 2022. Furthermore, the plan assumes an annual tax rate increase of 3.9% for each of the 10 years, an inflation rate of 2% and borrowing costs of 3.75%.

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 prepares future budgets, 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 participated in the development of the LRFP. Treasury staff completed the detailed analysis of the model received from Watson Consultants and Regional staff was consulted on the issuance of debentures.

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 Long Range Financial Plan is based on knowledge available at this current point in time. Dedicated staff resources will continuously monitor all the assumptions contained within the plan. Of particular importance are the timing and amount of population growth and assessment, the allocation of water, the timing of the receipt of monies pertaining to the Hydro note, the final selling price and timing of the sale of surplus lands, inflationary increases, the condition of the Town’s core infrastructure, tax rates set by future Councils, ability to collect development charges, interest rates and potential Provincial cut backs. Changes to any one of these factors could impact the financial plan. Council will be informed of any variances should it become necessary to revise the Long Range Financial Plan.

Reviewed and Approved by,

Jane Diamanti, Acting CAO