Long Term Financial Planning & Budgeting

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3 Pillars of Financial Planning

Principles to Maintain Sustainability

- ✓ Establish Target net tax levy or rate increases to ensure planned and affordable annual increases;
- ✓ Establish targets/principles for adequate levels of capital replacement reserves to limit tax/rate increases;
- ✓ Maintain assets in a condition to ensure safe, reliable and affordable delivery of service
- ➢ Maintain adequate resources to fund all current and future financial obligations

Principles to Mitigate Vulnerability

- ✓ Establish “user pay principles” for identified services to avoid property tax subsidization
- ✓ Establish appropriate Development Charge rates to ensure growth pays for the necessary growth related infrastructure
- ➢ Limit/Manage the County’s reliance on external revenue sources beyound the County’s control

Principles to Maintain Flexibility

- ✓ Establish target debt repayment limits to ensure ability to take on new/unforeseen priority projects;
- ✓ Develop short/long term mitigation measures to "smooth" effects of known/impending circumstances
- ✓ Maximize investment returns, while minimizing risk to leverage investment portfolio to fund underlying operations/long term financial plan
- ➢ Monitor annual property tax levy in relation to municipal comparators and in relation to annual household income;
- ➢ Monitor/establish targets for overall budget funded from property taxes/rates

Specific Principles Adopted by Council – Sustainability

- ***Maintain Assets to ensure safe and reliable services***:
  - Asset Management Plans: Core Infrastructure (roads, bridges, water, wastewater and storm) generally in good shape; other asset categories have had a preliminary asset management plan but little condition and service level analysis to date
  - Asset Condition Assessment: Core infrastructure have regular condition assessments and targets/plans (e.g. road condition assessments w 75% PCI target for roads, OSIM bridge assessment and condition assessment for facilities (roofs))
  - Pro-active Maintenance Plans: dedicated programs based on type of infrastructure and criteria to evaluate required timing of maintenance (e.g. roads, watermains, wastewater mains and storm water)
  - Focus on Replacements/"State of Good Repair" (80/20 rule): Prioritization of all projects based on a standard evaluation criteria – reviewed and vetted by Peer Review Committee

Specific Principles Adopted by Council – Sustainability (con't)

- ***Financing Principles to ensure affordability of services:***
  - *Target Tax/Rate Increases*: Council has historically established a tax rate increase for term of Council (rate increases viewed in relation to year over year impacts)
  - *Dedicated Capital Levy*: Overall levy/rate increase of 1% annually for capital related expenditures (target tax supported capital related expenditures of 35%)
  - *Capital Reserve/Reserve Fund Principles*: Specific to dedicated capital related replacement reserves ("Pay as You Go" principle):
    - Council has established dedicated reserves to fund specific capital replacement programs
    - All reserves must have a positive balance at end of 10 year forecast; and
    - Any interim financing must be limited to 25% of annual contributions; and
    - All Financing charges must be recovered through the underlying applicable project

Specific Principles Adopted by Council – Vulnerability

- **“Growth Pays for Growth”:**
  - County has established a Local Service Policy and Development Charge by-law to ensure growth related infrastructure is paid for by new Growth;
  - Development Charges reserve fund must remain positive in aggregate over the 10 year forecast period.

- **“User Pay” Principles**:
  - User Fees and Charges Policy establishes fees based on who benefits, type of service and recovery/subsidy levels;
  - Water and wastewater services 100% recovered by users of systems;
  - Annual indexing of miscellaneous fees;
  - Periodical “full cost recovery” reviews.

Specific Principles Adopted by Council – Vulnerability (con't)

- **Use of External Revenue Sources**:
  - Maximize recovery of costs from specified identified users based on established cost sharing principles – full cost recovery
  - E.g.: Industrial users of water systems; shared services with Norfolk and New Credit, Community Partners on Capital improvements
  - Established financial parameters to protect County's interests
- **Use of Grants**:
  - Conditional Grants: Applied to approved projects (e.g. Clean Water/Wastewater Fund)
  - Unconditional Grants:
    - Federal Gas Tax: 50% Tax Operating/50% water/wastewater
    - Ontario Community Infrastructure Fund: allocated based on Asset Management Plan and highest need – currently core infrastructure Roads/Bridges

Specific Principles Adopted by Council – Flexibility

- ***Short/Long Term Mitigation Strategies***: Phase-in impacts of loss revenues or levy/rate increases (e.g. loss OPG tax revenue, OPP increases, Fire Protection Charges, etc.) – “smooth” these impacts over several years
- ***Debt Repayment Limits***:
  - Principles on when to use debt (projects > $1 M and >$10M)
  - Repayment Limit: **<u>10%</u>** of “own source” revenues (incl. tax/rate/DC debt and Front End Financing)
  - Provincial limits of 25% - provides flexibility for unforeseen costs and future opportunities
- ***Maximize Investment Returns***: The County has an Investment Policy and Investment Committee – key principles:
  - Protect Principle;
  - Maximize returns;
  - Establish annual “benchmark” earnings based on average yield to maturity (currently outperforming industry benchmarks)

Current Budget $

Year	2018 Approved Budget		
	Tax Supported	Rate Supported	Combined
Operating			
Tax Levy/Rates	$63,757,390	$12,012,090	$75,769,480
% of Gross Expenditures	58%	57%	58%
Gross Expenditures	$109,235,030	$21,014,280	$130,249,310
Capital			
Gross Expenditures	$28,162,810	$7,061,400	$35,224,210
Total Combined Expenditures	**$137,397,840**	**$28,075,680**	**$165,473,520**

Future Impacts

- Government Transfers: Potential reduced Provincial transfers
- Net Impacts of Growth
- Changes in Customers Use: Loss of industry or downsizing
- Rate budget very susceptible to consumption impacts or changes in net expenditures:
  - Loss of major customers/changes in consumption patterns
  - Reduced Leachate treatment revenues
  - ✓ Reduced Hamilton water rates

Measurement/Financial Indicators

- Fiscal measures to evaluate effectiveness of principles/policies on 3 pillars: Sustainability, Vulnerability and Flexibility
- Currently included/reported by numerous sources:
  - Annual “BMA” Study (report to Council in February/March of 2019) – numerous financial indicators with municipal comparisons (14 measures spread across 3 pillars)
  - Municipal/Provincial Action Group – in 2017 developed a “Fiscal Indicator/Health Condition” report (12 measures spread across 3 pillars)
  - Annual MMAH “Financial Indicator” Review - (7 measures across 2 pillars)
  - Annual Credit Rating evaluates several fiscal measures – County’s current rating AA stable