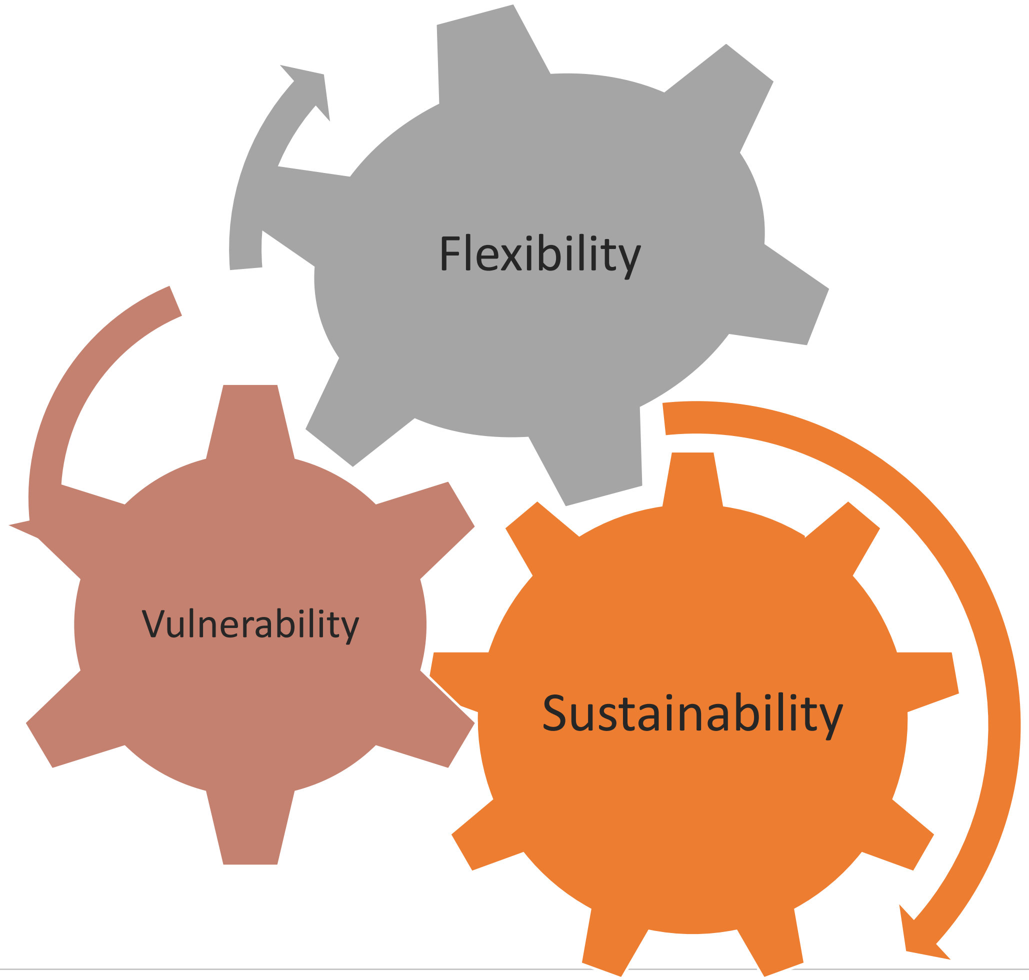
Long Term Financial Planning & Impacts of COVID

Mark Merritt, General Manager of Financial & Data Services

Haldimand County

3 Pillars of Financial Planning



Principles to Maintain Sustainability

- Establish targets/principles for adequate levels of capital replacement reserves to limit tax 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

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Principles to Mitigate Vulnerability

- Establish appropriate Development Charge rates and Local Service Policy to ensure growth pays for the necessary growth related infrastructure
- Limit/Manage the County’s reliance on external revenue sources beyond the County’s control

Principles to Maintain Flexibility

- Establish target debt repayment limits to ensure ability to take on new/unforeseen priority projects

3 Key Principles Related to Long Term Financial Plan

- ***Long term capital spending and related financing plan***
- ***Investment plan – maximize returns and minimize risk***
- ***Maintain flexibility and contingency planning for unforeseen events***

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Long term capital spending and related financing plan

- ***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 (e.g. facilities, social housing
  - 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 – **limited planned new/enhanced infrastructure**

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Long term capital spending and related financing plan

- ***Financing Principles to fund capital replacement plan:***
  - *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
    - Only dedicated reserves for new/enhanced services/capital is Development Charges for specifically identified Growth related infrastructure – no dedicated funding source for new/enhanced services

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Long term capital spending and related financing plan

- ***Impacts to Plan:***
  - Changes to the Capital Plan
    - *Increased scope/costs of planned capital projects*
    - *Acceleration of Planned capital expenditures*
    - *Unplanned/new capital projects – not in capital forecast*
    - *Deviating from underlying warrants/principles - needs or established standards*
  - Changes to underlying funding plan
    - Decreased federal/provincial grants
    - Changes to planned cost-shared capital projects
    - Reduced investment returns
    - Changes to growth/development plan – 1% dedicated capital levy funded from assessment growth

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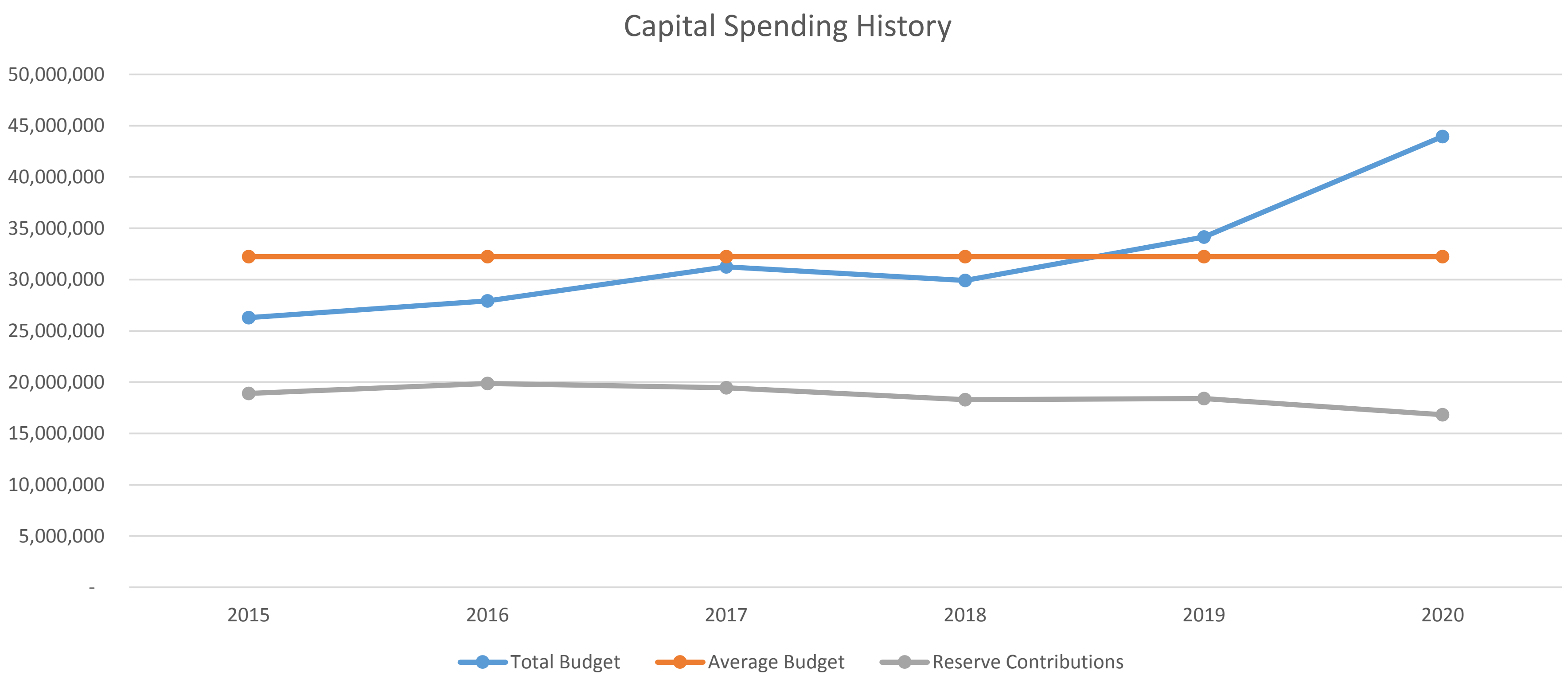
Capital Spending



Investment plan – maximize returns and minimize risk

- **Key Principles of Investment Policy:**
    - Preservation of capital
    - Portfolio diversification
    - Maximize investment returns
    - ***Optimize utilization of cash resources***
- **Uses of Investment Returns**:
    - Hydro Legacy Fund: Key goals
        - Preserve and protect principal – includes indexing principal
        - Current target of 4% annual returns
        - Use of uncommitted investment earnings – major assets/infrastructure needs
    - Tax supported operations: Annual offset to required tax levy of $1.6 million or 2.3%
    - Reserves/Reserve Funds: statutory and Council approved
        - Used to fund long term capital plan
        - Offset required annual contributions

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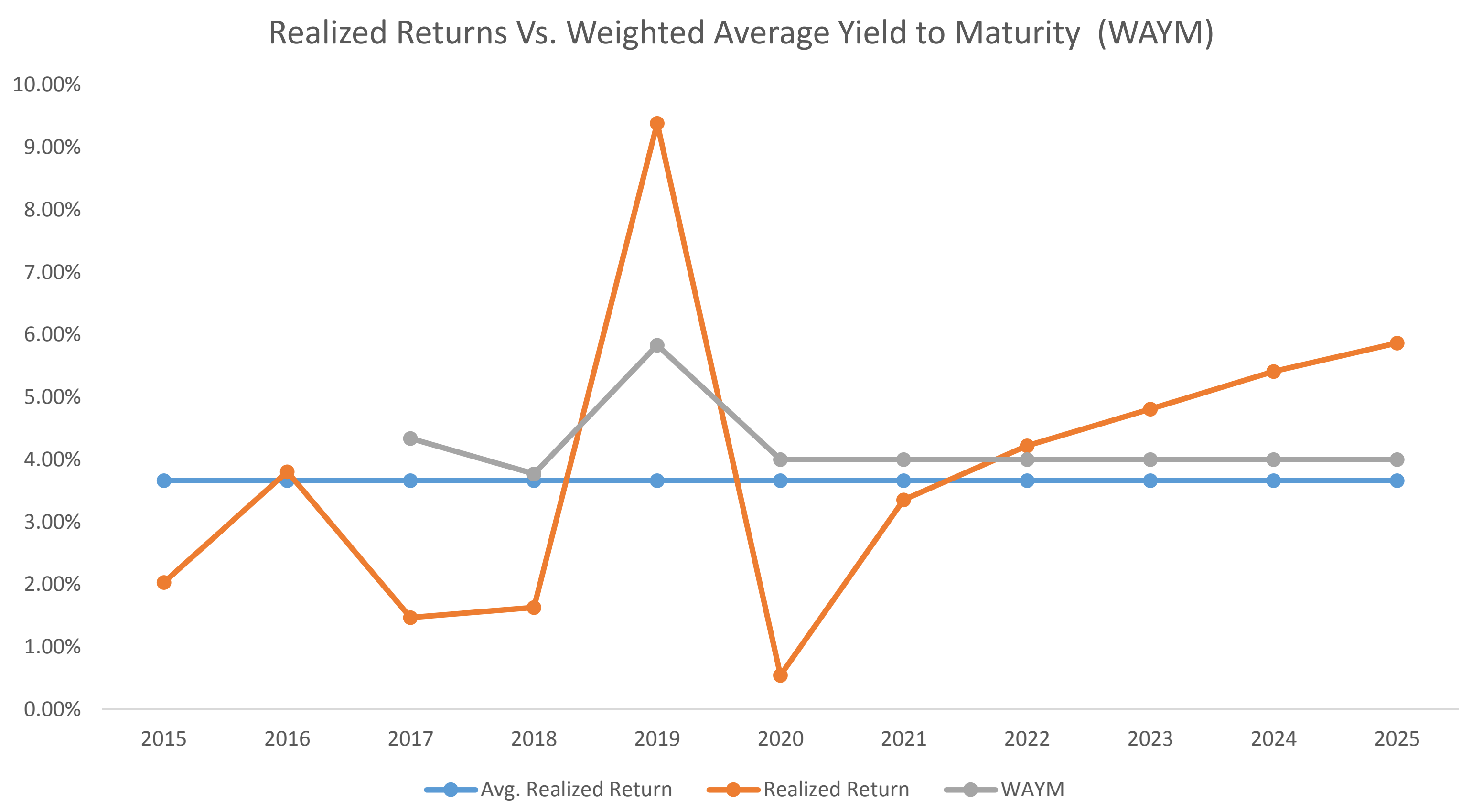
Investment plan – maximize returns and minimize risk

- **Impacts to current plan:**

- ***Impacts on Returns:***
  - Volatility in markets and fluctuating returns
  - Reduced cash flows and available investment portfolio
  - Changes in portfolio mix
  - Timing of liquidating or maturing investments

- ***Impacts on Portfolio Balance***
  - Unplanned capital and operating expenditures
  - Changes in cash flow needs

Investment Fluctuations



Maintain flexibility and contingency planning for unforeseen events

- **Key Principles:**
  - Limited use of debt to allow flexibility for unforeseen capital expenditures
  - Limit County's reliance on external revenues/grants
  - Utilize user pay systems where warranted
  - Phase in anticipated financial impacts where possible
  - Operating contingency reserves to offset variances and unforeseen <u>operating</u> costs – there is no dedicated funding source - current balance approx. $11 million
  - There are <u>no</u> capital contingency reserves currently in place
- **Impacts on Principles**:
  - Unplanned Reductions in Federal/Provincial Grants/Transfers
  - Unplanned capital or operating expenditures
  - Reduced external revenues
  - Economic impacts

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Financial Impacts of COVID

Impact	Estimated $
Incremental COVID Expenses – Interest Grace Period	$417,000
Incremental COVID Expenses – Other Net Costs	$900,000
Incremental COVID Expenses – Share of Norfolk	$1,013,000
Total Incremental Costs	**$2,330,000**
Offsetting Revenues/Grants	$475,000
Net Incremental COVID Costs	**$1,855,000**
Offsetting Potential Operating Savings	$1,000,000
Anticipated Net Deficit/Operating Loss	**$855,000**

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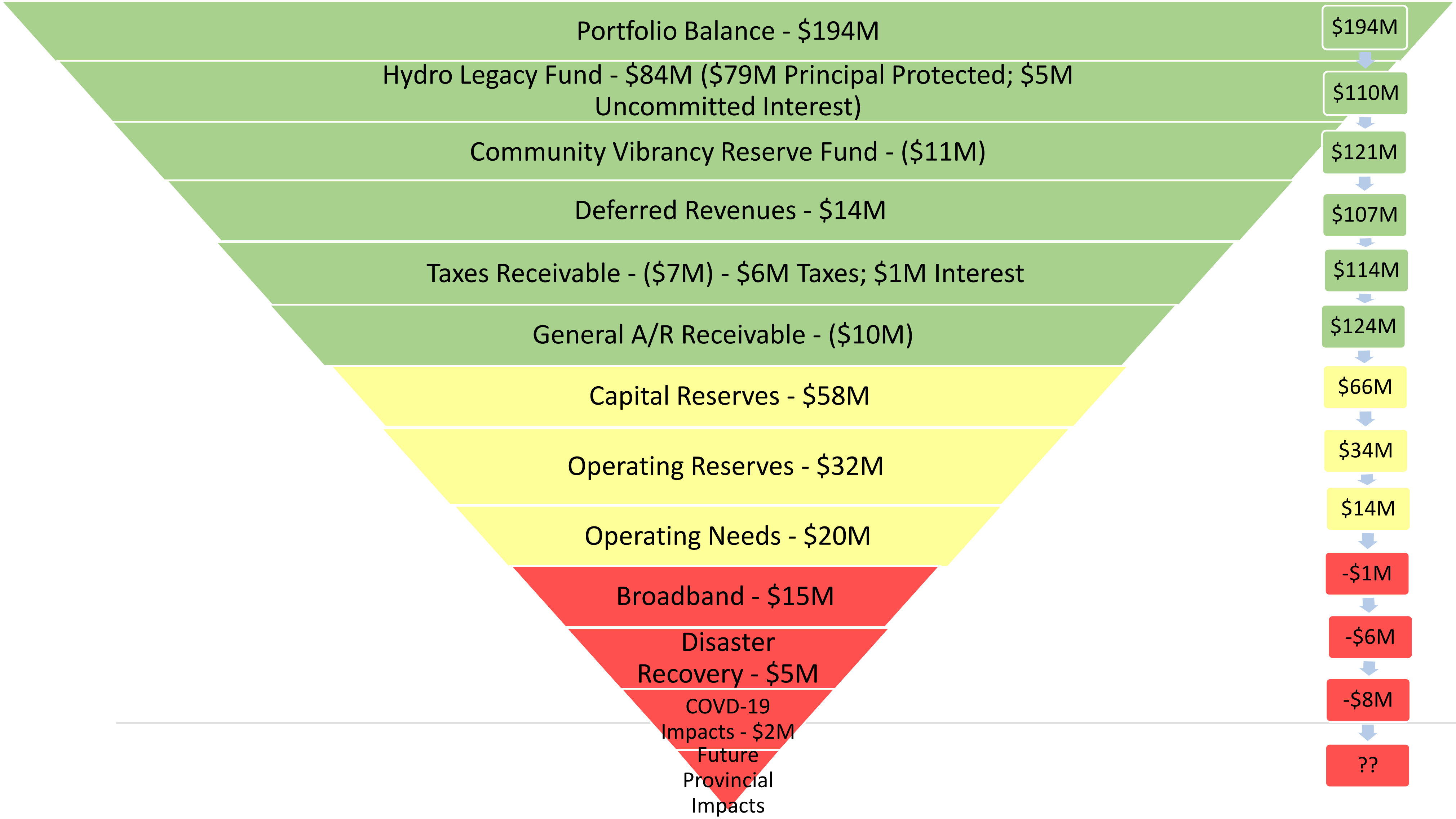
Investment Portfolio Commitments



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Cash Flow Impacts

- Estimated cash flow impacts/needs - late 2020/early 2021
  - Current estimate $12 million plus $15 million (Broadband) potential impact of $26 million
- Possible solutions/alternatives (in order of preference):
  - Issue debt on approved projects to take advantage of current interest rate market of approximately $7 million
  - Liquidate underlying investments
    - Original plan to liquate a specifically purchased investment for $13 million prior to COVID
    - Developing new plan with potential liquidation of other holdings of $15 million
  - Monitor and manage controllable costs to maximize potential surplus
  - Defer planned capital projects
    - Reviewed capital plan and deferred specific projects
    - 2021 Budget needs to revisit plan and likely defer additional projects (including potentially approved 2020 projects not started)
  - Increase/accelerate revenues/tax levy
  - Issue debt on additional projects
  - Use line of credit ($5 million)

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Key Messages

- Very uncertain economic times
  - County maintains a tight cashflow prior to these events
  - Uncertain markets and interest rate/returns
  - Transfer payments from senior levels of government at risk/under review
  - Timing of economic recovery
  - Impacts of COVID on taxpayers and businesses
- Must exercise caution and have strategic plans over issues we can control:
  - Reduce capital spending – what does it mean?
  - Maximize low interest rates for planned borrowing on capital projects
  - Risk in revising cash flow to meet our needs – alternatives are expensive
  - Continue to monitor controllable expenditures