Discussion Paper
HYDRO DIVESTITURE FUND

- **$72.4 million** net sale proceeds: $73.3 million gross revenue less divestiture and water billing conversion costs of approx. $1 million (Report CS-GM-04-2016). Note: 86.5% profit on sale = $34 million (gross proceeds of $73.3 M less carrying value of shareholder's equity of $39.3 M)
- Staff directed to lock-in the principal sale proceeds to ensure a "legacy fund" is maintained in perpetuity
- Investment strategy approved by Council in April 2016 focusing on a stable, secure, long term rate of return while maximizing the earning potential of this significant single inflow of cash within the legislative framework (Report CS-FI-08-2016)
- Policy Statement & By-law needed to formalize the purpose of the fund and set principles regarding the use/distribution of investment earnings in order to: preserve the principal, potentially grow the fund over time and fund certain municipal expenditure

1. NAME OF FUND:

- Currently, identified as "Hydro Divestiture Reserve Fund"
- Possible alternative names:
  - "Hydro Legacy Fund"
  - "Haldimand County (Hydro) Legacy Fund"
  - "Haldimand Futures Fund"
- Requires Resolution & By-law to establish name & uses of fund
- Public visibility/accountability/transparency: website presence; project signage; annually publicize investment returns & use of funds

2. MANAGEMENT OF INVESTMENT:

- Consolidated with other County investments and earnings distributed based on prorated share of net returns (Report CS-FI-08-2016)
- Ensure the principal is indexed annually to provide long-term growth of the principal and annual earnings in perpetuity
- Distinguish between the realized return (actual cash earnings) vs changes in the market value of the investment
- Ensure a sufficient stabilization buffer is maintained in the "Investment Income Stabilization Reserve" to mitigate market volatility, short term fluctuations in the current value of the investment and stabilize the annual "earnings"
- Draw an annual "dividend" from the net investment income which can be utilized based on the principles outlined below
- Available for internal borrowing to meet cash flow requirements, rather than using external operating lines of credit/long term debt

3. DRAFT PRINCIPLES FOR USE OF ANNUAL INVESTMENT EARNINGS:

Principle	Description/Rationale	Priority
Principal balance is indexed in order to maintain pace with inflation	• Retain a portion of the investment income in order to grow the principal to match the current inflated value; this will preserve the "purchasing power" of the principal so that it is not eroded over time • Index tied to changes in the Statistics Canada Construction Index (same as used for indexing Development Charge rates)	#1
Indemnification Fund for HCUI Liabilities	• Final SPA transferred full environmental risk of former HCUI properties to Haldimand County in exchange for additional upfront cash of approximately $7 million. Memorandum CS-GM-M04-2015 noted that the extra $7 million would be earmarked as the "HCUI risk self-insurance provision".	#2
Maintain a minimum balance in the "Investment Income Stabilization Reserve"	• Create/top-up these funds to stabilize fluctuations in investment income as it is prudent to have protection from short term downturns in the market. A significant portion of the principal is invested in equity funds, which will not realize an actual return under the investment is liquidated (maybe several years into the future). The Stabilization Reserve will mitigate short term market volatility and ensure a stable source of funds are available on an annual basis. It can also assist with the timing differences resulting from recording investment earnings on an accrual versus cash (realized) basis.	
Offset a portion of the Capital Tax Levy (taxpayer relief)	• Use some investment income in lieu of the taxpayer funded growth needed in the annual capital tax levy (i.e. 1% annual increase reflected in current 10 year Capital Budget); effectively, provides taxpayer relief by eliminating the need to increase the taxes for capital purposes (projected 2017 increase equates to approx. $600,000); and/or • Supplement the annual capital tax levy in order to reach the target of 35% faster, thus providing more funding for pay-as-you go and to repay debt (2017 at 29.7%) • Need to establish whether either of these options are a one-time vs ongoing approach; regardless, the capital levy should be increased on an annual basis (through taxes) to account for inflation	
Pay debt charges on new/enhanced major capital investments	• Some of the investment income could be dedicated towards paying the annual debt charges for significant, new capital investments related to enhanced/expanded services • Establish a maximum debt:equity ratio for this purpose so as not to negatively impact the County's overall fiscal position or violate consolidated debt limits in relation to other long term financing needs (i.e. major replacements; growth related debt; etc.)	

Invest in new/enhanced municipal services	• Dedicate a portion of the investment income to expand/enhance municipal services • Need to determine if this applies to capital, operating (including the operating costs associated with new assets) or both	
Accelerate the Base Capital Program – State of Good Repair (for current assets)	• This assumes that the capital expenditure program for current assets is insufficient and that there is a business case for acceleration of replacement projects rather than continued maintenance (operating cost) of existing assets • It also recognizes that the County does not, as of yet, have a complete asset management program – i.e. FAPO, buildings – and that additional capital funding is likely required based on current replacement costs	
Mitigate Increases in the Water & Wastewater (Rate Supported) Budget	• The rate supported budget is the most volatile and challenging – given the full reliance on "user pay", low customer and volatile consumption base, and high cost of delivering water and wastewater services • It recognizes that the hydro divestiture is indirectly associated with a utility customer base; however, this will have a disproportionate impact on urban/rural ratepayers • Associated expenditure could be capital, operating or both	
Provide Additional Taxpayer Relief through the Operating Budget	• Increase the annual interest income that is applied as "general revenue" to the tax supported operating budget so as to reduce the overall net tax levy (2016 base budget = $1.6 million) • Must be sustainable to avoid subsequent years' tax increases	
Strategic Capital Investments and Associated Increases to Operating Costs	• Should be aligned with Corporate Strategic Priorities and Prioritized by Council • Needs to explicitly consider operating impacts of new or enhanced services	
Other Considerations	• Cap the % amount of income to be available for capital contributions (in excess of indexing) • If the revenue base erodes, use some of the fund to maintain current services. This will provide flexibility to respond to unforeseen fiscal challenges such as: ▪ Reduced business assessment ▪ Macro-economic conditions (i.e. recession) ▪ Localized economic conditions that may impact growth This recognizes that the County has some structural challenges that likely won't change over time – low population relative to size and demands, limited "frill" services that can be curtailed, reliance on a few large industries and small scale commercial operations.	