Committee Report

To:	Warden Hicks and Members of Grey County Council
Committee Date:	August 12, 2021
Subject / Report No:	FR-CW-22-21
Title:	Long Term Corporate Capital Overview
Prepared by:	Mary Lou Spicer
Reviewed by:	Kim Wingrove
Lower Tier(s) Affected:	
Status:	Adopted as **amended** by Committee of the Whole through Resolution CW127-21; Colliers to provide overview of proforma costs and valuation of Grey Gables; Endorsed by County Council CC63-21

Recommendation

1. **That Report FR-CW-22-21 regarding Long Term Corporate Capital Overview be received for information.**

Executive Summary

Fiscal responsibility and investing responsibly in the future is a core value in Grey County's Strategic Plan. This report provides an overview of Grey's current financial health indicators and the county's potential long term capital spending. The implications of committing to additional capital spending on overall corporate fiscal health, taxation impacts for residents and member municipalities are discussed.

Background and Discussion

An organization's fiscal health can be assessed by understanding whether its operations are sustainable, whether it has the flexibility to meet its current and future obligations, and how vulnerable it is to expenditure increases or revenue decreases.

There are a number of ways to monitor and evaluate a municipality's financial health and ability to serve its residents today and into the future.

Current Financial Health

As the following information demonstrates, Grey County is in good financial health and its financial indicators are in line with comparator upper tier municipalities.

The 2020 audited financial statements demonstrate that Grey County is growing its net financial assets, accumulated surplus, reserves and tangible capital assets. Long-term external liabilities totaled $3,224,611 and were comprised of $800,000 for the remainder of the commitment to Georgian College for the Marine Emergency Duties Training and Research Centre (commitment will be fulfilled in 2024) and $2,424,611 to Scotiabank for the Golden Town housing property (matures in 2026).

Grey County Audited Financial Statement Results

Indicator	2016	2017	2018	2019	2020
Net Financial Assets	$35,489,579	$30,545,841	$27,943,264	$32,125,280	$43,193,028
Accumulated Surplus	$211,067,117	$215,378,478	$230,457,614	$240,639,155	$256,706,028
Reserves	$46,131,947	$46,553,044	$48,112,282	$52,045,115	$63,151,047
Obligatory Reserves	$7,024,409	$9,442,793	$10,390,224	$15,421,635	$20,618,882
Asset Net Book Value	$174,169,747	$183,721,051	$201,217,731	$207,149,677	$212,485,464

A further source of financial health information is the annual BMA Municipal Comparative Study. It provides analysis of key financial indicators and comparison between Grey County and other upper tiers in the province. Based upon the 2020 results, an indicator from each of the sustainability, flexibility and vulnerability categories are shown below for Grey and its upper tier comparators.

Sustainability - The ability to provide and maintain service and infrastructure levels without resorting to unplanned increases in rates or cuts to services. Grey has a positive financial position with a value near to the median of upper tier comparators.

Financial Position Per Capita (financial assets less liabilities)

Municipality	**2015**	**2016**	**2017**	**2018**	**2019**
Simcoe County	($133)	($137)	($67)	($62)	($112)
Bruce County	($161)	($90)	($58)	($94)	($24)
Dufferin County	($1)	$65	$83	$189	$274
Grey County	$395	$378	$326	$284	$320
Elgin County	$235	$262	$339	$498	$507

Wellington County	$371	$442	$460	$551	$593
Average	**$118**	**$153**	**$180**	**$228**	**$260**
Median	**$117**	**$163**	**$204**	**$236**	**$297**

BMA Municipal Study 2020

Flexibility - The ability to issue debt responsibly without impacting the credit rating and the ability to generate required revenues.

Tax Discretionary Reserves as a % of Own Source Revenues

This indicator shows the total value of funds held in reserves and reserve funds compared to a single year's own source revenue and is a strong indicator of financial stability. Grey County is currently just above the median of its comparators.

Municipality	2015	2016	2017	2018	2019
Elgin County	15%	25%	37%	34%	21%
Bruce County	42%	45%	46%	42%	46%
Dufferin County	38%	45%	49%	55%	64%
Grey County	65%	66%	65%	62%	68%
Wellington County	67%	61%	64%	68%	72%
Simcoe County	50%	55%	67%	76%	84%
Average	**46%**	**49%**	**55%**	**56%**	**59%**
Median	**46%**	**50%**	**57%**	**58%**	**66%**

BMA Municipal Study 2020

Vulnerability - This assesses a municipality's vulnerability to the loss of external sources of funding and its exposure to risks. As a partner of the Province in providing human service delivery, there is a risk of changes in funding or service level requirements, increasing application-based funding rather than base funding, or requiring new service levels with only time limited funding.

Rates Coverage Ratio – provides a measure of the municipality's ability to cover its costs through its own sources of revenue. According to the Ministry of Municipal Affairs and Housing, a basic target is 40-60%; an intermediate is 60%-90% and an advanced target is 90% or greater. Grey's result is at the median of comparator upper tiers.

Municipality	Own Source Revenue as a % of Total Expenditures
Simcoe County	49.4%
Wellington County	55.9%
Dufferin County	58.6%
Grey County	60.0%
Bruce County	65.4%
Elgin County	69.5%
Average	**59.8%**

Median	**59.3%**

BMA Municipal Study 2020

Grey County is also required to submit information to the Ministry of Municipal Affairs and Housing which is used to compile the annual Financial Information Return (FIR) and provides a risk rating. In 2019, Grey's results were:

Net financial assets as a % of Own Source Revenue – Indicates revenue available to pay for future transactions. Grey had a low level of risk to being over committed.

Total reserves and discretionary reserve funds as a % of municipal expenses - Indicates whether a municipality is setting aside money for future needs. Risk is low when the percentage is greater than 20%. Grey reported 40.8% and the median of all upper tier results was 39.4%

Cash ratio (total cash and cash equivalents as a % of current liabilities) – The measure of the money that a municipality can access quickly and the ability to meet its current expenses. Grey had an excellent result with a very low level of risk at 5:1. The median of all upper tier results was 3:1

Debt servicing cost as a % of total revenues - This reflects how much revenue is used to pay down existing debt and shows how past borrowing decisions might impact the current budget. As discussed above, in 2019 Grey County had long term external liabilities totaling $3,224,611 and our result was 0.5%. The upper tier median was 1.4%

Closing amortization balance as a % of total cost of capital assets - this is the one indicator with a moderate level of risk at 56.5% as compared to the upper tier median of 48.5%. In March 2019, staff updated the tangible capital asset policy that was originally written in 2009. The most significant change to the policy was to adjust amortization for road bases from 40 years to 50 years for urban and 75 years for rural road bases. Given that roads are the largest valued asset category and that amortization was not adjusted retroactively, it is expected that the asset consumption ratio would not be a low level of risk. The result of updating the lifespan will be to slow down the amortization going into the future and over time, assuming the County continues to invest in its assets, this level of risk will lessen. It should also be noted that the asset consumption ratio only compares dollar amounts and does not reflect asset condition.

Asset Surplus/deficit as a % of own source revenue – measures a municipality's ability to cover its operational costs and have funds to transfer to reserve or to repay debt. Grey's risk here was low.

Looking into the Future

2022-2031 10 Year Capital Forecast

Spending in the 2022-2031 10 Year Capital Forecast totals $245,750,800 over the 10-year period. Projects are included in this plan based on various requirements including meeting regulatory or growth-related requirements, the asset management plan, building condition assessments and staff or consultant evaluations. The goal is to make necessary investments in infrastructure so that the useful life of assets is optimized. Grey's solid financial health has allowed it to self-finance projects rather than debenture them. By loaning money to ourselves we keep project costs lower than they would be otherwise.

The 2022-2031 plan includes internally financed debt repayment for the Chatsworth Paramedic Services base and Grey Gables' roof and contributions to reserve for future long-term care redevelopment costs of $1.3 M per year as well as the anticipated debenture cost that will begin in 2025 with the build of the Durham Paramedic Services base.

Capital funding to support the projects in the forecast comes from several sources including grants and program funding from provincial and federal government, reserves, development charges and the levy. Every effort is made to align spending plans with available resources in order to avoid significant spikes in levy requirements.

Potential New Capital Spending

In addition to the projects identified in the 10-year capital forecast, other potential future budget impacts that have not been costed include the following:

Affordable Housing, Homelessness Prevention and Supportive Housing

- To address the waitlist for affordable housing, an estimated 600+ new affordable housing/rent geared to income units would be required at a current cost of $300,000/unit.
- An estimated $200,000 annually is required for rent supplement assistance and the aging housing portfolio will require an increase in funding.
- County support for securing supportive housing facilities or to enable builds by other partners would require new funding.
- Current funding from the Province does not support the approximately $800,000 annually required to address the increase in the number of emergency stays, an out of the cold program and additional outreach workers.
- The 2021 budget includes 1% of levy funding dedicated to Affordable Housing that was funded from the One-Time Funding Reserve. This will become a budget impact in 2022 at a cost of approximately $610,500.

Continuation/expansion of Grey Transit Route (GTR)

- Extending the Grey Transit Route beyond 2025 at current service levels - $732,100 (at 2021 costs). This refers to the routes funded under the provincial grant and the Grey Road 4 route that is funded by tax levy totaling $92,100 in the 2021 budget.
- Enhancing the GTR to provide more routes or more trips on existing routes - TBD, 2022 budget request $223,000.
- Providing the coverage currently funded to Southgate under a grant from the Province - $154,000 (at 2021 costs with current level of service).

Road exchanges/connecting links

- Entering into connecting link agreements or transferring road responsibilities will both require an unknown amount of financial reconciliation.

Road improvements

- Current 10-year capital requirements are based on construction cost and road condition estimates and subject to fluctuations outside of the county's control. A 10% increase in construction costs for projects in the 2025 capital forecast would require an additional $2,134,500. A catastrophic failure of 1 km of bridge would require approximately

$1,000,000. A catastrophic failure of 1 km of road would require approximately between $1,200,000 to $3,500,000 depending on the classification of the road.

Climate Change and Resiliency Investments

- There are a number of opportunities identified in the draft Climate Change Action Plan to implement strategies and actions to reduce the collective greenhouse gas emissions both corporately and community wide.
  - vehicle fleet and equipment electrification, energy efficiency retrofits on County-owned buildings and investing in renewable energy at County properties.
- There are many opportunities for community strategies
  - energy efficiency retrofit programs for residential, commercial and industrial buildings, establishing a green standard for new buildings, developing education and awareness programs, electric vehicle charging stations, active transportation infrastructure, creating a climate adaptation plan, collaborating with local municipalities to support waste diversion, supporting our agricultural community with various programs and initiatives and solar photovoltaic loan/incentive programs.
- To implement these strategies and actions, support from senior levels of government and County funding would be required.

Social Services Modernization

- The Province has undertaken a transformation in the way municipally delivered provincial programs are delivered. The financial related impact of the Province's plan to modernize Social Services delivery is unknown.

Increased demand for Paramedic Services

- Report PSR-CW-07-21 discusses the 12.7% increase in call volume in 2021 to June 30 as compared to 2020 and an increase of 3.4% over 2019. As the permanent/seasonal population and visitors to Grey County increase, the call volume will also increase. The costs of paramedic services are shared 50-50 with the province.

Healthcare Initiatives

- The Healthcare Funding Taskforce is expected to provide recommendations regarding future funding requirements later this fall. In addition to the hospitals' equipment requirements, Georgian College has launched a capital campaign for the new simulation lab required for the BScN program that begins in Fall 2022.

Future Phase of Rockwood Terrace Redevelopment

- As discussed with the Long-Term Care Redevelopment Committee on June 3, 2021, the estimated cost of completing the campus of care at the Durham site and constructing the assisted living and seniors housing as phase two of the redevelopment project is $48 million.

Long Term Care Redevelopment

Grey County has been approved by the province to construct two 128 bed long term care homes. One would replace the existing Rockwood Terrace in Durham which is required to be replaced under the terms of its operating license with the province. The second would be adjacent to the current Grey Gables in Markdale. It would add 62 beds to the current 66 on that site. Only the 62 new beds would qualify for provincial funding support. CAOR-RD-09-21 provides updated project costing and annual debt scenarios based upon Colliers' current experience with market conditions.

The projects would require the County to borrow nearly $90 million on a 25-year term and require at a minimum, an increase to the annual levy of $2.3 million or 4% at current spending levels. Further implications are discussed later in this report.

The following tables are extracted from the report with the link to the full report provided below.

$400,000/bed financed at 3% interest

	Grey Gables	**Rockwood Terrace**	**TOTAL**
	128 Bed Build	**128 Bed Build**	**256 Bed Builds**
Construction Cost			
Beds to be Constructed	128	128	256
Estimated Build Cost per Bed	$400,000	$400,000	$400,000
Site Improvement Costs* see below		$5,500,000	$5,500,000
Estimated Construction Cost	**$51,200,000**	**$56,700,000**	**$107,900,000**
Beds Eligible for Construction Subsidy	62	128	190
Construction Subsidy Per Diem Per Day			
Base Per Diem (rural market amount)	20.78	20.78	20.78
Medium home component	0.75	0.75	0.75
Total Construction Subsidy	21.53	21.53	21.53
Resident Days Per Year	22,630	46,720	69,350
Construction Subsidy (Years)	25	25	25

	Grey Gables	Rockwood Terrace	TOTAL
	128 Bed Build	128 Bed Build	256 Bed Builds
Annual Construction Subsidy	**$487,224**	**$1,005,882**	**$1,493,106**
Total Construction Subsidy (25 years)	$12,180,598	$25,147,040	$37,327,638
Development Grant see below**	**$29,246**	**$29,246**	**$29,246**
Total Development Grant	**$1,813,252**	**$3,743,488**	**$5,556,740**
Financing Estimate for 256 Bed Build			
Estimated Construction Cost	$51,200,000	$56,700,000	$107,900,000
Less: LTC Redevelopment Reserve			
Projected 2021 Year End Balance		-$8,580,639	-$8,580,639
2022 Contribution		-$1,361,000	-$1,361,000
2023 Contribution		-$1,361,000	-$1,361,000
2024 Contribution		-$1,361,000	-$1,361,000
2025 assume will make debenture payment		$0	$0
	$51,200,000	$44,036,361	$95,236,361
Less: Maximum Redevelopment Grant for 128 + 62 beds	-$1,813,252	-$3,743,488	-$5,556,740
Principal Loan Amount	$49,386,748	$40,292,873	$89,679,621
Annual Repayment (assuming 3%	$2,836,176	$2,313,934	$5,150,110
interest with 25 year term)			
Annual Construction Funding Subsidy	-$487,224	-$1,005,882	-$1,493,106

	Grey Gables	Rockwood Terrace	TOTAL
	128 Bed Build	128 Bed Build	256 Bed Builds
Annual Levy Requirement	$2,348,952	$1,308,052	$3,657,004
Existing Levy Requirement	-$52,948	-$1,308,052	-$1,361,000
Levy Increase Required	$2,296,004	$0	$2,296,004

* Cost for site work (storm, sanitary, road, utilities, etc.) unknown at this time. A provision of $5,500,000 has been included in order to calculate an estimated financing cost and resulting levy increase

** Development Grant - Ministry provides a maximum of $29,246 per eligible bed to a maximum of $5,556,740. The development grant is 12% of the estimated construction cost (in our scenario, construction costs exceed the 12%). Using an assumed cost of $400,000 per bed, this means that at least $242,100 per bed needs to be eligible expenditures to qualify for the development grant). Ineligible expenditures include development charges, architect fees, building permits, furniture/equipment not affixed to the building etc.

Any available funding from development charges has not been reflected in this presentation as the DC study is still in progress.

$400,000/bed financed at 4% interest

	Grey Gables	**Rockwood Terrace**	**TOTAL**
	128 Bed Build	**128 Bed Build**	**256 Bed Builds**
Construction Cost			
Beds to be Constructed	128	128	256
Estimated Build Cost per Bed	$400,000	$400,000	$400,000
Site Improvement Costs* see below		$5,500,000	$5,500,000
Estimated Construction Cost	**$51,200,000**	**$56,700,000**	**$107,900,000**
Beds Eligible for Construction Subsidy	62	128	190
Construction Subsidy Per Diem Per Day			
Base Per Diem (rural market amount)	20.78	20.78	20.78
Medium home component	0.75	0.75	0.75
Total Construction Subsidy	21.53	21.53	21.53
Resident Days Per Year	22,630	46,720	69,350
Construction Subsidy (Years)	25	25	25
Annual Construction Subsidy	**$487,224**	**$1,005,882**	**$1,493,106**
Total Construction Subsidy (25 years)	$12,180,598	$25,147,040	$37,327,638
Development Grant see below**	**$29,246**	**$29,246**	**$29,246**
Total Development Grant	**$1,813,252**	**$3,743,488**	**$5,556,740**
Financing Estimate for 256 Bed Build			
Estimated Construction Cost	$51,200,000	$56,700,000	$107,900,000

	Grey Gables	Rockwood Terrace	TOTAL
	128 Bed Build	**128 Bed Build**	**256 Bed Builds**
Less: LTC Redevelopment Reserve			
Projected 2021 Year End Balance		-$8,580,639	-$8,580,639
2022 Contribution		-$1,361,000	-$1,361,000
2023 Contribution		-$1,361,000	-$1,361,000
2024 Contribution		-$1,361,000	-$1,361,000
2025 assume will make debenture payment		$0	$0
	$51,200,000	$44,036,361	$95,236,361
Less: Maximum Redevelopment Grant for 128 + 62 beds	-$1,813,252	-$3,743,488	-$5,556,740
Principal Loan Amount	$49,386,748	$40,292,873	$89,679,621
Annual Repayment (assuming 4% interest with 25 year term)	$3,161,343	$2,579,226	$5,740,569
Annual Construction Funding Subsidy	-$487,224	-$1,005,882	-$1,493,106
Annual Levy Requirement	$2,674,119	$1,573,344	$4,247,462
Existing Levy Requirement	$0	-$1,361,000	-$1,361,000
Levy Increase Required	$2,674,119	$212,344	$2,886,462

* Cost for site work (storm, sanitary, road, utilities, etc.) unknown at this time. A provision of $5,500,000 has been included in order to calculate an estimated financing cost and resulting levy increase

** Development Grant - Ministry provides a maximum of $29,246 per eligible bed to a maximum of $5,556,740. The development grant is 12% of the estimated construction cost (in our scenario, construction costs exceed the 12%). Using an assumed cost of $280,000 per bed, this means that at least $242,100 per bed needs to be eligible expenditures to qualify for the development grant). Ineligible expenditures include development charges, architect fees, building permits, furniture/equipment not affixed to the building etc.

Any available funding from development charges has not been reflected in this presentation as the DC study is still in progress.

Taking on additional debt comes with multiple considerations. It has a material impact on the County's financial sustainability, flexibility and vulnerability and FIR risk ratings. This would impact the rates at which the County could borrow money in the future. Debt repayment would require either a levy increase or service reductions and budget cuts in other areas of County operations.

Increasing the levy has an impact on property taxes. The 2020 BMA study compared property taxes as a percentage of household income. Of the six Grey County member municipalities that participated, three showed property taxes as low compared to household income, one as medium and two were high.

County Borrowing Limits

FR-CW-08-20 Debt Management Policy endorsed by County Council April 23, 2020 determined that the County's annual debt repayment should not exceed 10% of its own source revenue, with this threshold also including any amounts borrowed internally. In 2021, the County's maximum debt given the current interest rate of 2.58% and a 25-year amortization period is $140M or should the interest rate rise to 4.0% the maximum debt would be $120M.

As well as our internal policy, the Municipal Act, 2001 as amended, provides the authority and imposes restrictions regarding a municipality's ability to issue debt such that the annual principal and interest payments do not exceed 25% of own source revenues. The 2021 Annual Repayment Limit indicates that the County's repayment limit is $18,518,534 (link to document attached). At the current 25-year interest rate of 2.58%, County borrowing could not exceed $338.3M. The 2021 ARL shows that the County currently has 3.74% utilized of the legislated capacity

"Own source" revenues exclude upper level of government grants, deferred revenue, revenue from other municipalities, gain or loss on the sale of land and capital assets, development charges and donated tangible capital assets.

Annual Debt Repayment Limit Scenario (Based upon 2021 ARL)

The table below shows the impact of including the two long-term care redevelopment projects on our capacity to take on new debt. Grey County would have approximately $1.79M debt room available based its own 10% debt management target and would be within $13.3M of the legislated annual repayment limit. To provide some context, barring significant revenue increases, if Grey wished to utilize the $1.79M debt room, this would equate to borrowing $31M at a 3% interest rate for 25 years or borrowing $21M at 3% for 15 years.

Determination of Annual Debt Limit	2021	Including Future LTC Asset Renewal funded by Debt
Debt Charges for the Current Year		
Principal	$633,095	$2,786,479

Interest	$60,005	$3,647,190
Subtotal	$693,100	$6,433,669
Excluded Debt Charges		
Payments for Long Term Commitments and Liabilities financed from the consolidated statement of operations	$0	$1,493,106
Total Debt Charges	**$693,100**	**$4,930,563**
Total Revenues	$138,311,288	$139,804,394
Excluded Revenue Amounts		
Ontario Grants, including Grants for Tangible Capital Assets	$54,951,792	$56,444,898
Canada Grants, including Grants for Tangible Capital Assets	$694,670	$694,670
Deferred revenue earned (Canada Gas Tax)	$3,064,865	$3,064,865
Revenue from other municipalities	$420,883	$420,883
Gain/Loss on sale of land and capital assets	$0	$0
Deferred revenue earned (Development Charges)	$2,169,271	$2,169,271
Other Deferred Revenue	$52,942	$52,942
Other Revenue	$110,328	$110,328
Subtotal	**$61,464,751**	**$62,957,857**
Net Revenues	**$76,846,537**	**$76,846,537**
25% of Net Revenues	**$19,211,634**	**$19,211,634**
Estimated Annual Repayment Limit	**$18,518,534**	**$14,271,071**
Debt Management Policy Limit of 10% of Net Revenue		**$7,684,654**

Less: Estimated Net Debt Charges		$4,940,563
Less: Internal Borrowing or Unfinanced		$845,197
Less: Future Internal Debt Durham Paramedic Base		$107,000
Debt Room Limit Available at 10% Debt Management Policy Limit		**$1,791,894**

Legal and Legislated Requirements

The Municipal Act, 2001, Ontario Regulation 302/02 defines the annual debt and financial obligation limit for municipalities.

This Regulation provides the authority and imposes the restrictions concerning a municipality's ability to issue debt such that the annual principal and interest payments cannot exceed 25% of "own source" revenues. The own source revenues exclude upper level of government grants, development charges, gains or losses on disposal of assets and revenues from other municipalities.

Financial and Resource Implications

As outlined in the report.

Relevant Consultation

☒ Internal staff from Finance, Planning and Housing departments, Chief Administrative Officer

☐ External (list)

Appendices and Attachments

FR-CW-08-20 Debt Management Policy

2021 Annual Repayment Limit (based upon 2019 Financial Information Return)

2022-2031 10 Year Capital Forecast Summary

CAOR-RD-09- 21 Redevelopment project update