

***Municipality of Middlesex Centre
Long Range Financial Plan
February 2016***

***Prepared by
BMA Management Consulting Inc.***

BMA
MANAGEMENT CONSULTING INC.

Table of Contents

| | |
|---|----|
| Introduction - Long Range Financial Plan (LRFP) | 1 |
| Assessment of Municipality of Middlesex Centre's Financial Health | 5 |
| Growth and Socio-Economic Indicators | 8 |
| Population Changes | 10 |
| Age Demographics | 11 |
| Population Density | 12 |
| Construction Activity | 13 |
| Assessment | 14 |
| Household Income | 15 |
| Summary | 16 |
| Financial Indicators | 18 |
| Summary of Discretionary Reserves | 21 |
| Tax Discretionary Ratio | 23 |
| Infrastructure Sustainability Reserves | 23 |
| Water and Wastewater Infrastructure Sustainability Reserves | 25 |
| Infrastructure Sustainability Policies | 26 |
| Financial Sustainability (Stabilization) Reserves | 27 |
| Financial Sustainability Policies | 27 |
| Corporate Reserves | 28 |
| Program Specific Reserves | 28 |
| Operating Surplus | 29 |
| Debt Management | 30 |
| Financial Position | 32 |
| Taxes Receivable | 33 |
| Summary - Financial Indicators | 34 |

Table of Contents

| | |
|--|----|
| Municipal Levy, Property Taxes, Water/WW Costs and Affordability | 36 |
| Municipal Levy per \$100,000 of Weighted Assessment | 38 |
| Municipal Levy Per Capita | 38 |
| Water and Wastewater Residential Cost of Service | 39 |
| Affordability | 39 |
| Summary | 41 |
| Tax Supported Long Range Financial Plan | 42 |
| Model Development | 44 |
| Summary of 2016 Tax Supported Budget Revenues and Expenditures | 45 |
| Operating Budget Summary | 46 |
| Operating Budget Assumptions | 47 |
| 10 Year Operating Budget Forecast | 48 |
| 10 Year Capital Forecast | 49 |
| 10 Year Debt Summary | 51 |
| 10 Year Tax Capital Contribution Summary | 52 |
| 10 Year Tax Capital Reserve Summary | 52 |
| Water and Wastewater Long Range Financial Plan | 54 |
| 10 Year Water Operating Budget Forecast | 55 |
| 10 Year Wastewater Operating Budget Forecast | 56 |
| Addressing the Annual Funding Shortfall | 57 |
| Summary of Water and Wastewater Capital Forecast | 58 |
| 10 Year Debt Summary | 59 |
| Summary | 60 |
| Summary of Key Financial Indicators | 62 |
| The LRFPP is Dynamic - Regular Updates Will be Undertaken | 65 |

Introduction—Long Range Financial Plan (LRFP)

Introduction—Long Range Financial Plan

The Municipality of Middlesex Centre, like other municipalities in Ontario, has to fund programs and services it provides within a limited funding framework. Middlesex Centre must address rising costs, increased service responsibilities as a result of changing demographics and aging infrastructure with relatively flat revenue streams and limited ability to modify the services it provides. As such, financial planning and prioritization becomes critical to ensure the ongoing sustainability of the municipality.

The Municipality of Middlesex Centre continues to take a *proactive approach* by assessing financial implications of current and proposed strategic directions and priorities through the development of a Long Range Financial Plan (LRFP). The purpose of this report is to provide an update to the Municipality's LRFP which was completed in 2012.

The LRFP includes strategies, principles and policies to guide financial decision-making as well as a 10-year financial projection. The purpose of the LRFP is to measure the Municipality's capacity to meet operating needs as well as to implement the strategic priorities of Council. It creates a purposeful approach to long-term financial management and helps align short-term actions with long-term financial strategies.

Building a Long Range Financial Plan (LRFP)

Financial Sustainability is defined as the enduring ability of the Municipality to ensure that it can deliver the level and types of services expected by the community, while proactively assessing and managing associated risks, at acceptable levels of taxation and fees.

The LRFP is built on the principles of Financial Sustainability which includes the following financial goals:



- **Flexibility:** being able to respond to changing circumstances, which may relate to economic, social, environmental or political conditions.
- **Efficiency:** using public funds in ways that provide the highest level of needed services possible within the amount of funding available.
- **Sufficiency:** having sufficient resources to support the delivery of services for which the Municipality of Middlesex Centre bears responsibility.

Benefits to Long Range Financial Forecasting

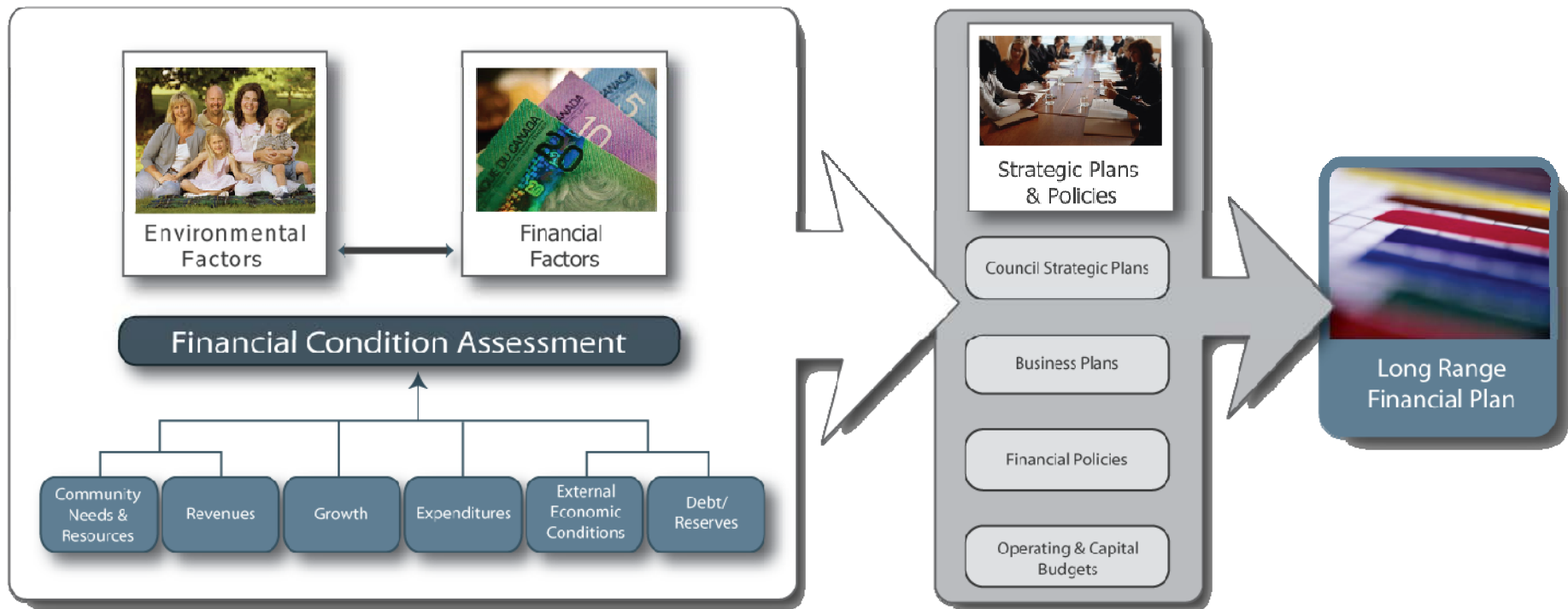
There are many benefits to long range financial forecasting:

- ✓ Examines fiscal trends (past and future)
- ✓ Identifies fiscal issues and opportunities
- ✓ Increases communication & awareness
- ✓ Stimulates long-term thinking
- ✓ Helps establish fiscal policies and goals
- ✓ Stimulates alternative approaches to solve future challenges
- ✓ Provides the necessary information to establish feasible solutions and decisions
- ✓ Identifies implications of fiscal decisions
- ✓ Helps develop an action plan
- ✓ Provides a tool to monitor progress against Council approved plans
- ✓ Provides financial transparency and accountability
- ✓ Provides a consolidated view

Better Information = Better Decisions

LRFP Process

The following diagram provides an overview of the building blocks used to develop the Municipality’s LRFP:



A LRFP can have a significant practical impact on Middlesex Centre’s approach to planning, control and overall management of its programs, services and finances and on the quality of information provided to stakeholders. The process included the development of a Financial Condition Assessment. This considered numerous financial and socio-economic indicators to better understand the Municipality’s existing financial health. This information was then considered in the context of the Municipality’s existing strategic policies and practices. Recommended refinements to existing practices were then made to develop options and strategies which have been reflected in the LRFP.

Assessment of the Municipality of Middlesex Centre's Financial Health

Assessment of the Municipality of Middlesex Centre's Financial Health

Prior to developing the Long Range Financial Plan (LRFP), it is important to understand the Municipality's current "Financial Health" and the external factors that impact the Municipality's delivery of programs and services. The Municipality's "Financial Health" can be best described as its ability to:

- Achieve its **vision** as identified in the Municipality's Strategic Plan;
- Maintain required service levels including the maintenance and renewal of capital assets and infrastructure; and
- Withstand local and regional economic changes.

Key financial and socio-economic indicators have been included to help evaluate the Municipality's existing financial health and to identify future challenges and opportunities. Industry recognized indicators that are used by credit rating agencies and/or recommended by Government Finance Officers' Association (GFOA) have been included. GFOA is a municipal association representing best practices in North America. GFOA has a committee dedicated to addressing Canadian issues and has developed recommended best practices from a Canadian perspective. GFOA has developed a body of recommended practices in the functional areas of public finance. Monitoring indicators over time will reveal the progress and success of the plan and provide an enhanced opportunity to both respond to changing circumstances and to continually improve the effectiveness of the plan.

Trend Analysis

Analyzing the trends of the Municipality's key financial performance and socio-economic indicators offers several advantages:

- It provides information on changes in the Municipality's financial health, revealing the most current trends ;
- It shows how quickly a trend is changing;
- It will form the basis for future forecasting;
- It builds awareness and helps identify the potential need to modify existing policies or develop new strategies; and
- It provides a good indication of where the Municipality is heading .

Peer Analysis

Peer analysis has also been included to gain perspective on the Municipality's financial health. The following table summarizes municipalities which are considered good comparators in terms of population growth patterns and proximity.

| Municipality | Region | 2015 Population |
|----------------------|--------------------------|-----------------|
| Kingsville | Essex | 22,280 |
| Lambton Shores | Lambton | 10,568 |
| Niagara-on-the-Lake | Niagara | 16,463 |
| Prince Edward County | Prescott and Russell UCO | 25,737 |
| Wellesley | Waterloo | 11,769 |
| West Lincoln | Niagara | 14,742 |
| Woolwich | Waterloo | 26,870 |
| Middlesex Centre | Middlesex | 17,649 |

Analysis of Financial Health

The Financial Health Assessment includes the following:

Growth and Socio-Economic Indicators

This includes an evaluation of the Municipality's growth and socio-economic indicators which are largely external to the Municipality's control but important to understand from a planning and forecasting perspective.

- Population
- Building Construction Activity
- Property Assessment
- Household Income

Middlesex Centre's Financial Position

This includes an evaluation of the Municipality's financial framework upon which the Municipality operates. These indicators help determine if modifications are needed to the Municipality's existing financial policies and strategies as part of the development of the long-range financial plan.

- Discretionary Reserves
- Debt
- Municipal Financial Position
- Taxes Receivable

Municipal Levy, Property Taxes and Affordability

This includes an evaluation of the cost of municipal programs and services and how these costs translate into municipal property taxes from a taxpayer affordability perspective to identify whether there are any affordability concerns.

- Municipal Levy
- Comparison of Relative Taxes
- Municipal Property Taxes as a Percentage of Income
- Water/Wastewater Costs

Growth and Socio-Economic Indicators

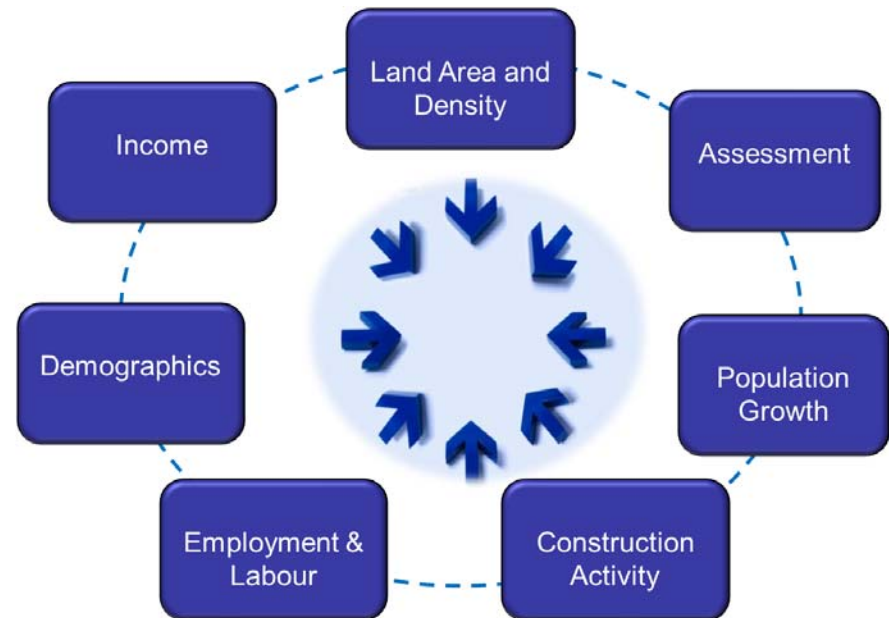
Growth and Socio-Economic Indicators

Analyzing growth and socio-economic indicators provide an overview of the internal and external factors that affect the community. They describe and quantify a community's wealth and economic condition and provide insight into the community's collective ability to generate revenue relative to the community's demand for public services.

An examination of economic and demographic characteristics can identify, for example, the following types of situations:

- An inclining tax base and correspondingly, the community's ability to pay for public services;
- A need to shift public service priorities because of demographic changes in the community; and
- A need to shift public policies because of changes in economic and legislative conditions.

These indicators are closely interrelated and affect each other in a continuous cycle of cause and effect. Also important are the Municipality's plans and potential for future development. The diversification of the commercial and industrial tax base was considered for its revenue-generating ability, employment-generating ability, vulnerability to economic cycles, and relationships to the larger economic region.

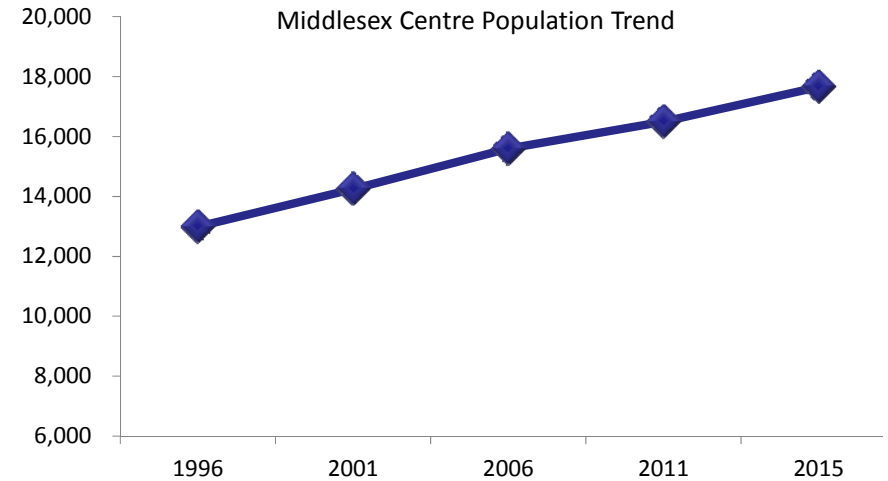


Population Changes

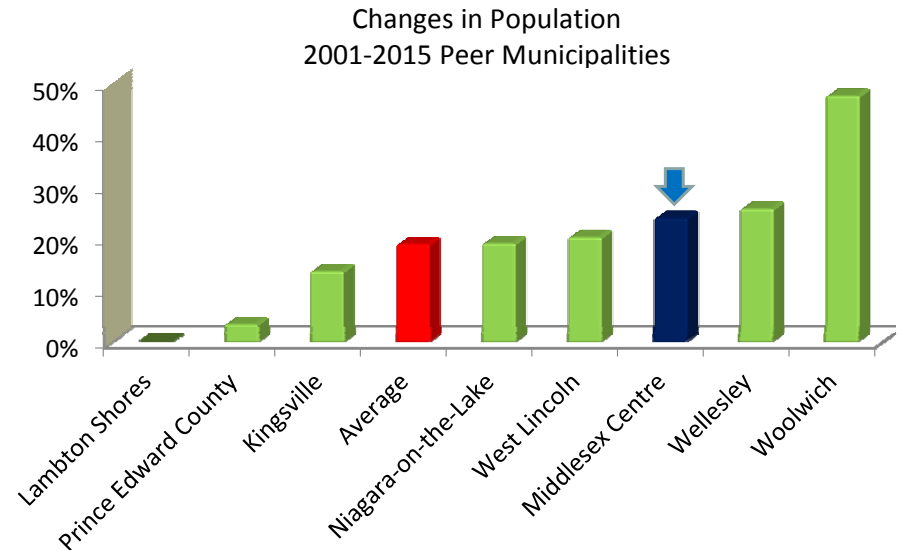
The population of Middlesex Centre is distributed amongst the villages and hamlets north and west of the City of London. Arva, Ballymote, Birr, Bryanston, Coldstream, Delaware, Denfield, Ilderton, Kilworth, Komoka, Lobo, Melrose and Poplar Hill are part of Middlesex Centre. The community also includes a large population outside the settlement areas. Although Middlesex Centre has a population of approximately 17,600 it is geographically large, covering 588 km².

Changes in population directly impact both revenues (assessment base) and expenditures (service demand). The following summarizes key findings related to the Municipality's population growth:

- Middlesex Centre has had steady population growth and has increased from 14,242 in 2001 to 17,649 in 2015 (23.9% increase).
- Over the past 10 years, Middlesex Centre's population growth was third highest in comparison to peer municipalities.



Source: Stats Canada, Manifold Data Mining, 2015



Source: Stats Canada, Manifold Data Mining, 2015

Official Plan Excerpt

One of the Municipality's general principles includes:

- To manage growth and change in an appropriate manner and appropriate locations with the intent of maintaining the positive physical character and attributes that Municipal residents currently enjoy

Age Demographics

The age profile of a population affects Municipality expenditures. For example, expenditures may be affected by seniors requiring higher public service costs and families with young children desiring enhanced services for recreational, and related programs. Middlesex Centre has a diverse demographic, requiring a full range of programs and services.

- Compared to the province, Middlesex Centre's age profile has some notable differences. The Municipality has a slightly higher percentage of residents that are ages of 65+ and a higher percentage of residents that are 19 years of age or under. This can increase the need for recreational programs and services and senior related services. The proportion of residents in the 20-44 age group is significantly lower than the province.
- From 2006-2011, there was an increase in the proportion of residents in the age group 45 and older in Middlesex Centre, reflecting a similar aging population pattern experienced across Ontario.

| Age Profile | % Change Middlesex Centre 2006 - 2011 | | | % Change Ontario 2006 - 2011 | | |
|-------------|---------------------------------------|-----------------------|----------|------------------------------|--------------|----------|
| | 2006 Middlesex Centre | 2011 Middlesex Centre | % Change | 2006 Ontario | 2011 Ontario | % Change |
| Age 0-14 | 20.4% | 19.4% | -1.0% | 18.2% | 17.0% | -1.2% |
| Age 15-19 | 7.4% | 7.9% | 0.5% | 6.9% | 6.7% | -0.2% |
| Age 20-44 | 29.0% | 26.5% | -2.5% | 34.9% | 33.0% | -1.9% |
| Age 45-54 | 16.6% | 17.4% | 0.8% | 15.3% | 16.0% | 0.7% |
| Age 55-64 | 13.0% | 13.9% | 0.9% | 11.2% | 12.7% | 1.5% |
| Age 65+ | 13.6% | 14.9% | 1.3% | 13.5% | 14.6% | 1.1% |
| Total | 100.0% | 100.0% | | 100.0% | 100.0% | |



Source: Stats Canada

Population Density

- Population density indicates the number of residents living in an area (usually measured by square kilometre). Density readings can lend insight into the age of a Municipality, growth patterns and zoning practices.

| Municipality | Land Area | Population Density |
|-------------------------|------------|--------------------|
| Prince Edward County | 1,050 | 25 |
| Lambton Shores | 331 | 32 |
| West Lincoln | 388 | 38 |
| Wellesley | 278 | 42 |
| Woolwich | 326 | 82 |
| Kingsville | 247 | 90 |
| Niagara-on-the-Lake | 133 | 124 |
| Middlesex Centre | 588 | 30 |

Source: BMA Municipal Study

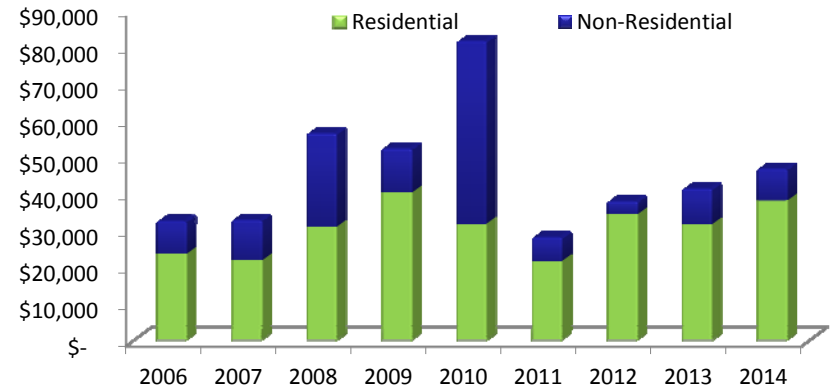
- Middlesex Centre's population density per land area is the second lowest in the peer survey.
- A challenge facing Middlesex Centre is a large geographic area with low population density. The per household costs for geographically based services can be significantly higher than more densely populated areas.

Construction Activity

Another growth-related indicator is the construction activity within a municipality. Building activity impacts other factors such as the employment base, income and property values.

- Generally, a municipality's net operating costs (expenditure increase net of the associated growth in assessment) to service residential development is higher than the net operating cost of servicing commercial or industrial development.
- The ideal condition is to have sufficient commercial and industrial development to offset the net increase in operating costs associated with residential development. Non-residential development is desirable in terms of developing a strong assessment base upon which to raise taxes and in providing employment opportunities.
- Over the past four years, residential/non-residential construction activity (on a \$ value of construction) has been primarily in the residential sector.
- The large increase in non-residential activity in 2010 was the result of an increase in institutional construction.
- Construction activity declined substantially in 2011, but has been increasing each year since.

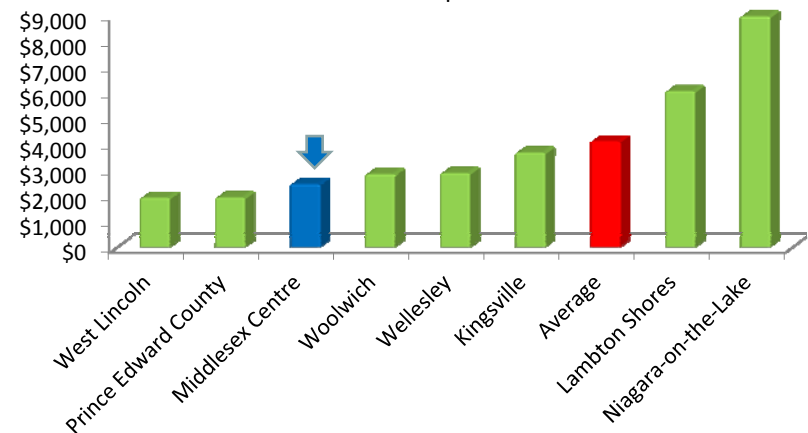
Construction Activity – Middlesex Centre (000's)



Source: Municipality year end construction reports

- Building permit value per capita is used as an indicator of the relative construction activity within each peer municipality. The average building permit value per capita over the three year average in Middlesex Centre was below the peer average.

Construction Activity per Capita – 3 Year Avg. Peer Municipalities



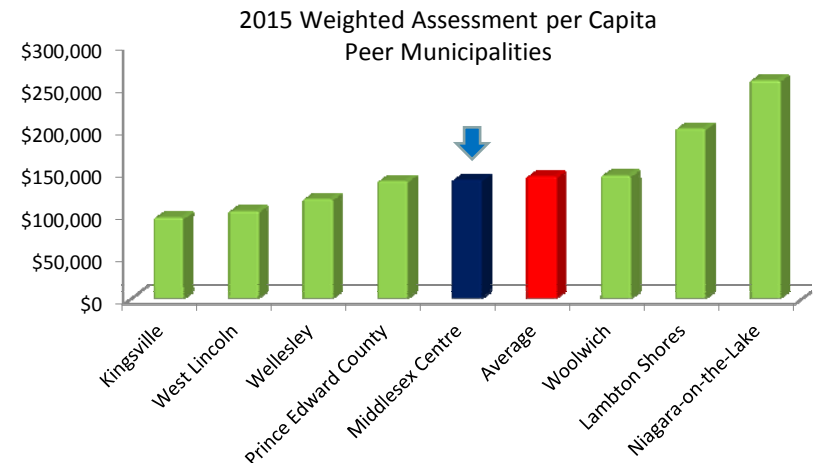
Source: BMA Municipal Study

Assessment

Property assessment is the basis upon which the Municipality raises taxes. Assessment growth, the richness of the assessment base and assessment composition are important indicators of fiscal strength.

- Assessment Composition**—Assessment composition provides an understanding of the mix of assessment. In comparison to the peer municipalities, Middlesex Centre has a significantly higher proportion of farmland assessment. Middlesex Centre's proportion of commercial and industrial assessment is lower than the peer average. This over reliance on residential and farm assessment can affect affordability.
- Richness of the Assessment Base**— Weighted assessment per capita statistics have been compared to provide an indication of the “richness” of the assessment base in each municipality as well as changes in assessment from year to year. Middlesex Centre's weighted assessment base per capita is slightly below the peer average. This is the result of lower commercial and industrial assessment and higher farming assessment, which is discounted by 25%.
- Assessment Growth**—From 2014-2015, the change in assessment in Middlesex Centre was higher than the peer municipal average, however, an increase in assessment does not directly equate to an increase in the revenue (tax) base as changes in assessment relate to growth, as well as reassessment (which does not generate additional revenues).

| 2015 Unweighted Assessment Composition % | | |
|--|---------------|------------------|
| | Peer Avg. | Middlesex Centre |
| Residential | 76.5% | 64.9% |
| Multi-Residential | 0.8% | 0.3% |
| Commercial | 9.4% | 3.2% |
| Industrial | 3.3% | 0.4% |
| Farmlands | 9.2% | 27.7% |
| Other | 0.8% | 3.5% |
| Total | 100.0% | 100.0% |



| % Change Unweighted Assessment 2014-2015 | |
|--|------|
| Middlesex Centre | 7.4% |
| Peer Average | 5.6% |

Source: BMA Municipal Studies

Household Income

Household income is one measure of a community's ability to pay. While a higher relative gross income is a positive indicator of the overall local economy, a higher gross income may also lead to greater expectations for quality programs which impact the cost of municipal programs and services and can lead to additional challenges in balancing desired levels and a willingness to pay for programs and services.

- Average household gross income in the Municipality of Middlesex Centre is higher than the peer municipal average. Higher income levels provide an increased potential ability to pay for municipal services.
- In 2014, the estimated average gross household income in Middlesex Centre was \$127,456, compared with the peer average of \$100,190.

| Municipality | 2014 Avg. Gross Household Income |
|----------------------|----------------------------------|
| Lambton Shores | \$ 83,805 |
| Kingsville | \$ 87,423 |
| Prince Edward County | \$ 88,515 |
| West Lincoln | \$ 96,516 |
| Niagara-on-the-Lake | \$ 105,166 |
| Wellesley | \$ 109,475 |
| Woolwich | \$ 130,431 |
| Peer Average | \$ 100,190 |
| Peer Median | \$ 96,516 |
| Middlesex Centre | \$ 127,456 |

Source: Manifold Data Mining 2014








Summary—Growth & Socio-Economic Evaluation

From a socio-economic and growth perspective, Middlesex Centre has experienced steady growth and generally positive trends.

- Middlesex Centre's population increased by 23.9% over the past 14 years, an average increase of approximately 1.7% per year.
- Recent construction activity reflects a higher residential development which is generally more costly to service.
- Household income in Middlesex Centre is higher than the Ontario average and peer municipalities.
- The Municipality's relative construction activity is the second lowest compared with peer municipalities on a three year historical average.
- The Municipality's assessment base has a high proportion of farm assessment compared with peer municipalities. Farm assessment is discounted by 25% but the overall weighted average is consistent with peer municipalities.



Summary—Growth Related Indicators

| Indicator | Trend, Observation | Rating |
|--|--|---|
| Population Growth | Middlesex Centre's population percentage increase over the past 14 years was higher than the average increase in peer municipalities. | <i>Neutral</i> |
| Demographics | Middlesex Centre has a slightly higher proportion of seniors and children 0-14 population compared to the Ontario average. The proportion of senior's population is increasing. This can increase the need for recreation and senior services. The 20-44 age group is lower than the provincial average. |  |
| Construction Activity— Mix | The Municipality's relative construction activity is primarily in the residential sector which is generally more costly to service. | <i>Neutral</i> |
| Construction Activity— Comparison | The Municipality's relative construction activity, as measured on a per capita basis, was below the peer survey over the past 3 years. Construction activity has been trending up. | <i>Neutral</i> |
| Assessment Composition | Proportion of commercial and industrial assessment is lower than the peer average. An over-reliance on residential and farm assessment can affect affordability. |  |
| Richness of the Assessment Base | The Municipality's assessment base, on a per capita basis, is approximately at the survey of peer municipalities. | <i>Neutral</i> |
| Assessment Growth | Higher than peer average. Note this includes growth as well as changes in assessment values. |  |
| Household Income | Average gross household income in Middlesex Centre is higher than the peer municipalities. |  |
| Population Density | Large geographic area and low population density. |  |

Financial Indicators

Middlesex Centre's Financial Position

Reserves/Reserve Funds are an important financial indicator in a Municipality's overall financial health. By maintaining reserves, the Municipality has the capability to fund future liabilities; a key link to long-term financial planning practices. They also provide a cushion to absorb unexpected shifts in revenues and expenditures. The availability of reserves also reduces the cost of financing capital as it allows a municipality to avoid debt interest payments. Credit rating agencies consider municipalities with higher reserves more advanced in their financial planning.

Debt is also an important indicator of the Municipality's financial health and is an appropriate way of financing longer life infrastructure and infrastructure related to growth that is not fully recovered through DCs. However, when debt levels get too high, it compromises the Municipality's flexibility to fund programs and services.

Operating Surplus of the Municipality considers the operating revenues against expenses (including amortization expense). This helps to determine whether the Municipality is contributing enough funds for the replacement of assets as they come due for replacement.

Financial Position of the Municipality is important to consider as this takes into consideration the Municipality's total assets and liabilities.

Taxes Receivable, as a percentage of taxes levied, is an indicator of the overall economic health whereby trends and industry benchmarks can be evaluated.

The condition and state of municipal infrastructure is an important factor in assessing a community's overall quality of life and economic health. The Municipality of Middlesex Centre has **over \$400 million dollars in infrastructure** which will require eventual replacement to sustain the community's overall quality of life and the economic health for future generations. Consequently, it is critical to understand that there is a great need and benefit for **further infrastructure investment in order to protect, sustain, and maximize the use of Middlesex Centre's infrastructure assets**. As will be discussed later in the report, Middlesex Centre has been proactively developing asset condition assessments on its major infrastructure.



Tax Reserves and Reserve Funds

Reserves are a critical component of the Municipality's long-term financial plan. The purpose for maintaining reserves includes:

- ✓ To provide tax **stabilization** in the face of variable and uncontrollable factors (growth, interest rates, changes in subsidies) and to ensure adequate and **sustainable cash flows**;
- ✓ To provide financing for **one-time** or short term requirements without permanently impacting the tax rates thereby reducing reliance on long-term debt;
- ✓ To make provisions for **replacement of assets/infrastructure** on a timely basis;
- ✓ To provide **flexibility** to manage debt levels and protect the Municipality's financial position; and
- ✓ To provide for **future liabilities** incurred in the current year, but paid for in the future like post retirement benefits.

There are two types of Reserves and Reserve Funds:

- **Obligatory Reserve Funds** are created whenever a statute requires revenue received for special purposes to be segregated from the general revenues of the municipality and includes reserve funds for development charges and developer agreements. Given that these are not available for use at the discretion of the Municipality or to support existing operations, they have **not been included in this section of the analysis**.
- **Discretionary Reserve Funds** are established whenever the Municipality wishes to earmark revenues to finance a future expenditure for which it has the authority to spend money, and physically set aside a certain portion of any year's revenues so that the funds are available as required. The focus of the reserve analysis is on discretionary reserves, as this is an area where the Municipality can readily modify its existing policies to help ensure financial sustainability.

Summary of Discretionary Reserves

The Municipality maintains five different classifications of Discretionary Reserves, with multiple reserves within each classification.

| Discretionary Reserve Classification | Description and Observations |
|--|---|
| <i>Tax Infrastructure Sustainability (Capital) Reserves</i> | Tax Infrastructure Sustainability Reserves are used to assist in financing the capital program. These reserves provide flexibility and liquidity as well as enhancing the Municipality's capability to handle current and future capital infrastructure needs. Annual contributions are made to these reserves to address the eventual rehabilitation and/or replacement of the assets and infrastructure. While efforts have been made to support infrastructure renewal, these reserves are currently underfunded. This is referred to as the infrastructure gap. |
| <i>Financial Sustainability (Stabilization) Reserves</i> | The Municipality maintains stabilization reserves to offset extraordinary and unforeseen expenditure requirements, revenue shortfalls and to manage cash flows. |
| <i>Corporate Reserves</i> | The Municipality has a number of corporate reserves to protect against the consequences of certain risks, liabilities and corporate programs in such areas as insurance, WSIB and employee benefits. |
| <i>Program Specific Reserves</i> | These reserves are available to fund specific programs and services. |
| <i>Water/Wastewater Reserves</i> | These reserves support the replacement of water and wastewater infrastructure. As will be shown in this section of the report, the water/ww reserves are currently underfunded. |

Tax Discretionary Reserves/Reserve Funds

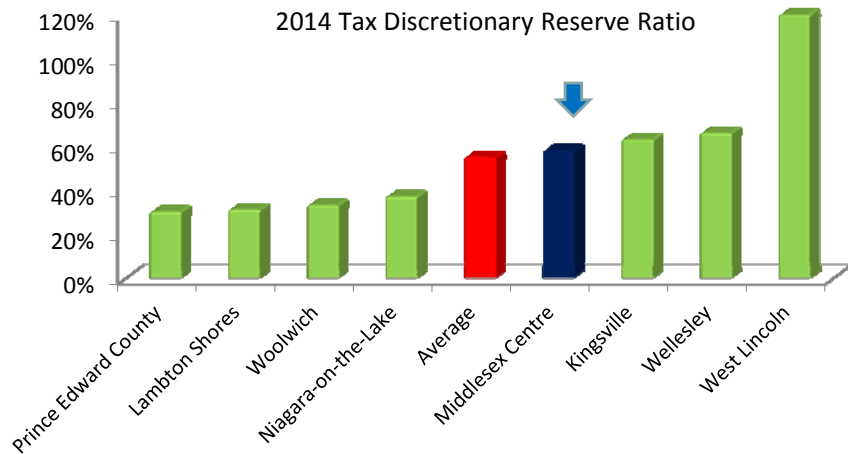
| Tax Supported Discretionary Reserves/Reserve Funds | 2011 | 2012 | 2013 | 2014 | 2015 | % Change |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|------------|
| Infrastructure Sustainability | \$ 3,846,534 | \$ 5,575,254 | \$ 6,177,947 | \$ 6,289,516 | \$ 7,530,925 | 96% |
| Financial Sustainability | \$ 2,850,150 | \$ 2,213,549 | \$ 2,783,123 | \$ 2,793,296 | \$ 2,801,737 | -2% |
| Corporate | \$ 150,943 | \$ 136,777 | \$ 174,443 | \$ 267,444 | \$ 296,429 | 96% |
| Program Specific | \$ 839,839 | \$ 847,950 | \$ 1,550,352 | \$ 1,485,607 | \$ 1,502,298 | 79% |
| Total | \$ 7,689,477 | \$ 8,775,542 | \$10,687,878 | \$10,837,877 | \$12,133,404 | 58% |

Source: FIR total tax, Municipality's year end report tax less commitments

- As shown above, the Municipality's total tax discretionary reserves/reserve funds increased by **58% since 2011**. Reserves are a preferred source of funding the replacement of existing assets, one-time events that occur, existing corporate unfunded liabilities and help in maintaining intergenerational equity. Intergenerational equity is the premise that taxpayers in each time period should, as a group, contribute to public expenditures from which they derive benefits in accordance with their share of the benefits generated by those expenditures. As shown above:
 - The Infrastructure Sustainability Reserves increased by 96% since 2011.
 - Financial Sustainability Reserves have remained relatively stable with a 2% decrease since 2011 and, as will be discussed, are in a healthy position.
 - Corporate Reserves have increased by 96% since 2011.
 - Program Specific Reserves are tied to underlying programs and have increased 79%, largely related to creation of "Build Middlesex Centre Reserve" in 2013.

Tax Discretionary Reserve Ratio

- Tax discretionary reserve ratio is the total of tax discretionary reserves as a percentage of own source revenues.



Source: FIRs

Note that for comparison purposes, the above noted graph uses Financial Information Returns (FIRs). As shown above, **Middlesex Centre's tax discretionary reserve ratio is slightly above the average of the peer group.** The need for reserves will vary based on services provided by the municipality and the age, composition and amount of assets and infrastructure that each municipality supports, as well as the type of liabilities. A review of the adequacy for each of the four classifications of reserves has been provided in the next section of the report.

Tax Infrastructure Sustainability Reserves

- The use of capital reserves to fund the replacement of existing assets is preferred as it avoids interest costs. Middlesex Centre's Infrastructure Sustainability Reserves (Capital) have increased significantly.
- However, as is the case in the majority of municipalities surveyed, this is an area that is frequently underfunded due to competing budgetary challenges.
- The Asset Management Plan prepared in 2013 estimated \$42.5 million in tax supported capital replacement needs over the 20 year forecast period.
- The following table summarizes the year-end balance in the Infrastructure Sustainability Reserves.

| Infrastructure Sustainability Reserves | 2011 | 2015 | % Change |
|--|---------------------|---------------------|------------|
| Roads Capital | \$ 464,393 | \$ 2,196,456 | 373% |
| Buildings & Facilities | \$ 354,359 | \$ 1,509,125 | 326% |
| Fire Vehicles & Equipment | \$ 505,981 | \$ 1,008,914 | 99% |
| General Vehicles & Equipment | \$ 347,594 | \$ 935,289 | 169% |
| Gas Tax Rebate | \$ 1,091,605 | \$ 902,226 | -17% |
| Gravel Pit Rehabilitation | \$ 295,245 | \$ 429,507 | 45% |
| Storm Water Capital | \$ 355,101 | \$ 369,350 | 4% |
| Waste Management | \$ 430,229 | \$ 173,873 | -60% |
| Medical Centre | \$ 2,027 | \$ 6,185 | 205% |
| Sustainability | \$ 3,846,534 | \$ 7,530,925 | 96% |

- A common financial indicator used to determine the adequacy of reserves that support infrastructure, is to compare the infrastructure reserve balances in relation to the accumulated amortization (Infrastructure Reserve Ratio). Ideally, this ratio should be 100% or greater, meaning that the amount available in reserves at any time is equal to the amount of assets that have been depreciated or used (based on an historical cost basis). This is based on the principle that the Municipality should set aside funds, on a regular and planned basis, to support infrastructure renewal.
- However, it should be noted that this is a calculation based on the theoretical useful life of assets as reflected in each municipality's PSAB policies. The actual reserve requirements should be based on asset condition assessments for every asset. This measure is still valuable as an estimate of the potential reserve requirements based on the existing assets.
- The Tax Infrastructure Sustainability Reserves (including Storm) at the end of 2015 were \$7.5 million and the accumulated amortization was \$67.5 million.

| (000's) | Reserve Balance | Accum. Amortization | Infrastructure Sustainability Reserve Ratio |
|------------------------------|-----------------|---------------------|---|
| Total Tax | \$ 7,162 | \$ 62,900 | 11.4% |
| Total Storm | \$ 369 | \$ 4,600 | 8.0% |
| Total Tax & Storm | \$ 7,531 | \$ 67,500 | 11.2% |

- Tax Infrastructure Sustainability Reserve Ratio for tax supported capital programs (excluding roads which is funded by debt) is **11.2%, well below the recommended 100% ratio**. This calculation is based on the theoretical useful life of assets as reflected in the Municipality's PSAB policy.
- A target of 100% is conservative because accumulated amortization is based on historical costs and does not represent the amount of money that will ultimately be required to replace assets. For example, if costs were to increase by 2% annually related to inflation, in 20 years the cost to replace the asset would increase by 50%.
- Asset consumption ratio shows the written down value of the tangible capital assets relative to their historical costs. This ratio seeks to highlight the aged condition of the assets and the potential asset replacement needs. A higher ratio may indicate significant replacement needs. However, if assets are renewed and replaced in accordance with an asset management plan a high ratio should not be a cause for concern. Middlesex Centre's asset consumption ratio is 36% which indicates how much of the Municipality's assets are depreciated. In relation to other municipalities surveyed, this reflects a relatively newer infrastructure (average 41% across 100 municipalities).

| (000's) | Historical | Accumulated Amortization | % Amortized |
|--------------|-------------------|--------------------------|-------------|
| Tax Capital | \$ 162,500 | \$ 62,900 | 39% |
| Storm | \$ 22,800 | \$ 4,600 | 20% |
| Total | \$ 185,300 | \$ 67,500 | 36% |

Water and Wastewater Infrastructure Sustainability Reserves

| Water/WW | 2011 | 2012 | 2013 | 2014 | 2015 |
|------------------------------|----------------|----------------|--------------|--------------|--------------|
| Water Capital | \$ (665,903) | \$ (395,360) | \$ (98,192) | \$ 359,092 | \$ 359,767 |
| Mill--Ilderton Water Storage | | | \$1,100,000 | \$ 288,742 | \$ - |
| Sanitary Sewer Capital | \$ (1,420,305) | \$ (1,054,561) | \$ (955,407) | \$ (644,347) | \$ (650,673) |
| Total Water/WW Capital | \$ (2,086,208) | \$ (1,449,921) | \$ 46,401 | \$ 3,487 | \$ (290,906) |

- As shown above, the consolidated water and wastewater capital reserves are in a negative balance of \$0.3 million as of December 31, 2015.
- A long range financial strategy was recently received by Council to gradually increase reserve contribution to fund the infrastructure requirements. This is a challenge for the Municipality of Middlesex Centre due to the existing cost of service which is high due to the complexity of the system and limited customer base.
- As shown in the following table, the asset consumption ratio for water and wastewater is relatively low in Middlesex Centre in comparison to other Ontario municipalities (33% average across 100 Ontario municipalities in water and 34% in

- As reflected in the Municipality of Middlesex Centre's 2015 LRFP for water and wastewater operations, in order to fund the capital requirements, there is a need to increase the contributions to the reserves. The forecast estimates an increase of 5.5% annually in the water rate revenue requirement increases of 5.5% and 6% in wastewater operations.

| (000's) | Historical | Accumulated Amortization | % Amortized |
|------------|------------|--------------------------|-------------|
| Water | \$ 47,100 | \$ 7,400 | 16% |
| Wastewater | \$ 39,200 | \$ 7,500 | 19% |

Infrastructure Sustainability Policies

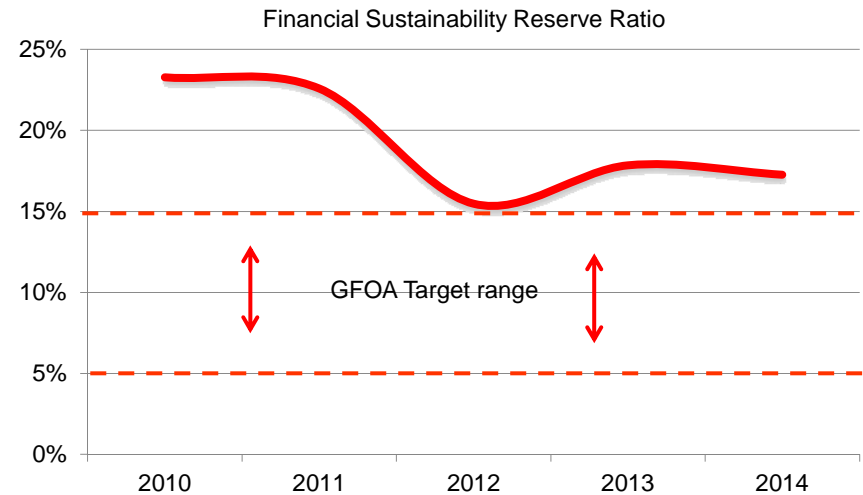
1. The Municipality will maintain all infrastructure in a state of good repair by implementing life cycle costing and providing annual contributions to the Infrastructure Sustainability Reserves to fund the renewal of assets based on a rate which reflects the consumption of that asset by current taxpayers.
2. Contributions to the Infrastructure Sustainability Reserves will be funded through calculated annual contributions from the Operating Budget based on capital replacement costs. As new assets are constructed, contributions to Infrastructure Sustainability Reserves for their replacement will be made. If the new assets are funded through debt, annual contributions to the Infrastructure Sustainability Reserve will be made once the debt repayments have been completed or as the serial debenture payment reduces. Based on affordability considerations, a phase-in strategy will be developed for inclusion in the annual preparation of the Operating and Capital Budgets.
3. A business case will be prepared for new capital initiatives including operating cost implications which will include a cost-benefit analysis that incorporates sustainability principles and identifies alignment with the corporate strategies priorities.
4. Any new assets that are internally financed from the Infrastructure Sustainability Reserves will be repaid, including interest, to the appropriate reserve from future operating budgets over the life of the asset.
5. A 5-10 year Capital Budget will be annually presented to Council, including anticipated funding sources, reserves and debt forecasts.
6. Advanced techniques, improved technologies, better materials and best practices will be incorporated in all infrastructure programs.

Financial Sustainability (Stabilization) Reserves

| Financial Sustainability Reserves | 2011 | 2015 | % Change |
|---------------------------------------|---------------------|---------------------|------------|
| Working Funds | \$ 1,260,793 | \$ 1,682,123 | 33% |
| Tax Rate Stabilization | \$ 1,589,357 | \$ 1,119,614 | -30% |
| Total Financial Sustainability | \$ 2,850,150 | \$ 2,801,737 | -2% |

Source: Municipality reserve reports

- The Municipality maintains stabilization reserves to offset extraordinary and unforeseen expenditure requirements, revenue shortfalls and to manage cash flows. This includes reserves for stabilization and working capital.
- On a consolidated basis, the Financial Sustainability Reserves as a percentage of own source revenues is 17%, **reflecting significant flexibility**.
- GFOA recommends that municipalities maintain Stabilization Reserves/Reserve Funds for the general tax base within a target range of **5%-15%** of own source revenues to provide sufficient liquidity and protection against unforeseen events.
- There may be opportunities to reallocate some of the Financial Sustainability Reserves to address some of the infrastructure sustainability challenges.



Source: Municipality reserve reports and FIRs

Financial Sustainability Policies

1. The Municipality will maintain one consolidated Stabilization Reserve which will only be used for extraordinary or one-time expenditures including previous years' operating deficits.
2. The target balance for the consolidated Tax Stabilization Reserve will be set at 5%-15% of the Municipality's tax own source revenues.
3. When the Tax Stabilization Reserve balance is lower than 5% of Own Source Revenues, operating surpluses will be transferred to the Tax Stabilization Reserve.

Corporate Reserves

| Corporate Reserves | 2011 | 2015 | % Change |
|---------------------------------|-------------------|-------------------|------------|
| Insurance Claims | \$ 86,507 | \$ 152,684 | 76% |
| Employee Benefits | | \$ 143,745 | |
| Workplace Safety | \$ 64,436 | | |
| Total Corporate Reserves | \$ 150,943 | \$ 296,429 | 96% |

Source: Municipality reserve reports

- One of the measures of financial sustainability is that future generations are not forced to pay for services provided to the current generation. The Municipality incurs liabilities that do not have to be paid immediately. Prudent and sustainable financial management strategies are needed to ensure future generations are not required to absorb a disproportionate share of these costs. As such, the Municipality has Corporate Reserves to protect against the consequences of certain risks, liabilities and corporate programs in such areas as insurance and Employee Benefits
- Consistent with the practice in the Municipality of Middlesex Centre, it is common for municipalities to establish Corporate Reserves to provide for Workplace Safety & Insurance Act liabilities. The Municipality has transferred from Schedule 2 to Schedule 1 classification under the Workplace Safety and Insurance Act effective January 1, 2013. The Municipality received its estimate of future benefit costs and administrative loading for the year ending December 31, 2014 under its former Schedule 2 classification from the Workplace Safety and Insurance Board of \$2.2 million.

- The extent of the unfunded liabilities varies across the municipal sector and, as such, there is no consistent strategy identified in terms of the amount of coverage required or the target balance for Corporate Reserves.
- Because the liabilities do not come due at the same time, to avoid significant budget fluctuations, it is prudent to identify what is a reasonable level of reserves based on expected or forecast timing of future payment requirements.

Program Specific Reserves

- Program Specific Reserves/Reserve Funds are set aside for specific purposes. These reserves and reserve funds are to be used for their identified purpose. These types of reserves and reserve funds may also include special one time purchases or activities approved by Council.
- This includes the Delaware Hydro Reserve with a balance of \$851,000. This reserve was established as a result of the sale of the hydro in Delaware and is available for usage in Delaware and may provide an opportunity to be used for infrastructure replacement. There are no issues with respect to these reserves. However, formalized policies or practices should be established for each Program Specific Reserves/Reserve Funds.

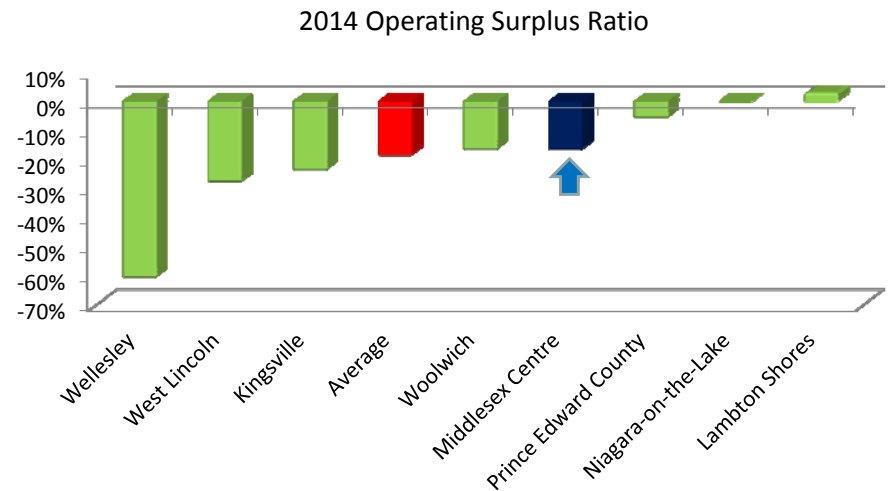
| Program Specific | 2011 | 2015 | % Change |
|---------------------------------------|-------------------|---------------------|------------|
| Delaware Hydro | \$ 835,429 | \$ 856,743 | 3% |
| Build Middlesex Centre | | \$ 610,217 | |
| Fire Public Education | | \$ 21,246 | |
| Popular Hill Log Cabin | \$ 4,410 | \$ 6,295 | 43% |
| Ilderton Lions Park | | \$ 7,797 | |
| Total Program Specific Reserve | \$ 839,839 | \$ 1,502,298 | 79% |

Operating Surplus

Financial statements are now prepared on a full accrual basis in accordance with accounting standard PS3150. On an accrual basis, expenditures consist of operating costs excluding transfer to reserve, debt interest payments and amortization of capital assets.

- An operating surplus (deficit), on an accrual basis, arises when revenues exceed (are less than) operating expenses, including amortization. A surplus is the amount available for capital replacement.
- The calculation of a surplus (deficit) provides an assessment of a municipality's financial performance and sustainability.
- ***If a municipality is not generating an operating surplus on a consistent basis, it is most likely underfunding its assets and accordingly not operating in a sustainable manner.***
- The ***operating surplus/deficit ratio*** is the amount of surplus/deficit as a percentage of own source revenues.
- A negative ratio indicates the percentage increase in own source revenues that would be required for a break-even operating result.

- In 2014, Middlesex Centre had a tax ***operating deficit ratio*** of 19%; a further indication that insufficient funds are being generated for the replacement of its capital infrastructure. This is not unique to the Municipality, as shown below, where most municipalities experienced an operating deficit in 2014.
- While there is no specific target, municipalities should, at a minimum, operate at a break even position which would mean that revenues are sufficient to recover the cost of operations, including annual amortization on a historical cost basis. As stated in the Asset Management Plan, it is important to implement a consistent, yet increasing annual investment in capital, so that the excess annual funds can accrue in capital reserve.



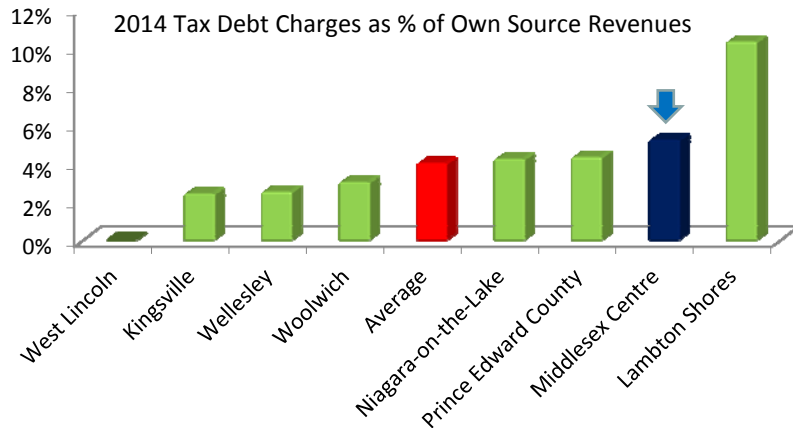
Source: BMA Municipal Study, FIRs

Debt Management

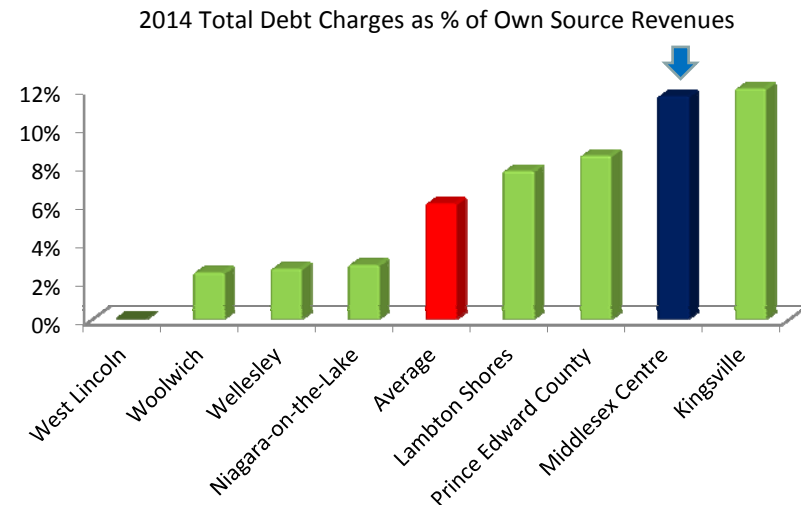
When municipalities issue debentures, they enter into a long-term commitment that requires them to make principal and interest payments over the life of the debentures. Hence, they need to ensure that:

- Future debt service payments can be made in full and on time, without jeopardizing the provision of essential services;
- Outstanding debt obligations will not threaten long-term financial stability of the municipality; and
- The amount of outstanding debt will not place undue burden on residents and businesses.

The Province regulates the amount of debt municipalities issue by setting an annual repayment limit for each municipality. This is the maximum amount by which a municipality may increase its debt. The repayment limit is set at 25% of a municipality's own source revenues.

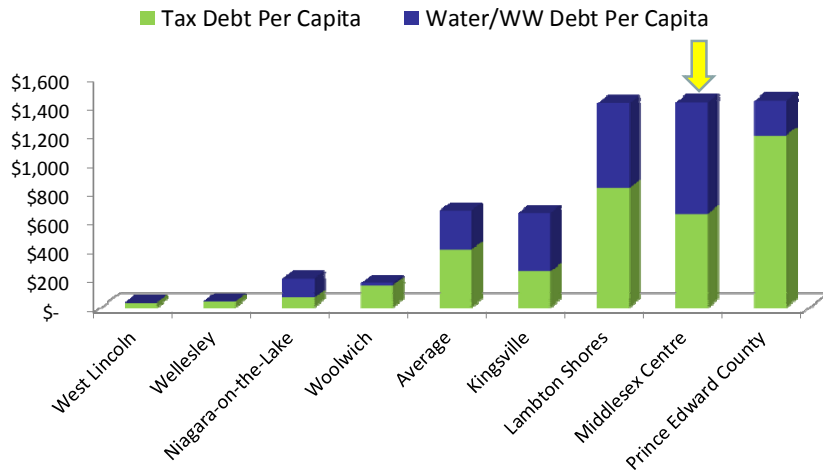


- This indicator shows the extent to which a municipality must use revenue to pay principal and interest costs rather than pay for programs and services. Financial flexibility is the ability to respond to changing circumstances which may relate to economic, social or environmental conditions. The higher the percentage required by debt service, the less financial flexibility available for responding to economic slowdowns, unexpected expenditures or changes in services.
- In 2014, the Municipality's tax and total debt charges as a percentage of own source revenues was higher than the peer group but still at a reasonable level. Tax debt charges as a percentage of own source revenues was 5.2% and 11.6% for the total tax and water/wastewater services. As will be discussed in the LRFP, additional debt is anticipated for both tax and rate supported programs over the next 10 years.



Source: BMA Municipal Study, FIRs

Debt per Capita



Debt per capita is another financial indicator that should be monitored according to GFOA. The debt outstanding per capita relates increases in debt to changes in population. As the population increases, capital needs and, therefore, long-term debt would be expected to increase. However, if debt is increasing at a greater rate than its population, debt levels may be reaching or exceeding the Municipality's ability to pay.

Debt per capita in 2014 is second highest in the peer municipalities and above the BMA average of 104 municipalities. This is driven , in part, by water/wastewater debt.



Debt Policies

1. Tax Debt Charges as a percentage of Own Source Revenues will not exceed 10%.
2. Water/Wastewater debt charges as a percentage of Own Source Revenues will not exceed 15%. (NEW policy)
3. Long-term debt will be considered as a source of financing to address the roads/bridges infrastructure gap.
4. Long-term debt financing will be restricted to specific project types:
 - Increased/new services to residents for new initiatives
 - New, non-recurring infrastructure requirements
 - Projects which are supported by a business plan that show revenues will cover capital and interest costs
 - Projects where the cost of deferring expenditures exceeds debt servicing costs
 - Project costs not recovered from Development Charges
 - Projects tied to third party matching funding

Note: These restrictions may have to be phased in to meet short-term budget challenges.
3. The length of the term of debt will not exceed the useful life of the underlying asset.

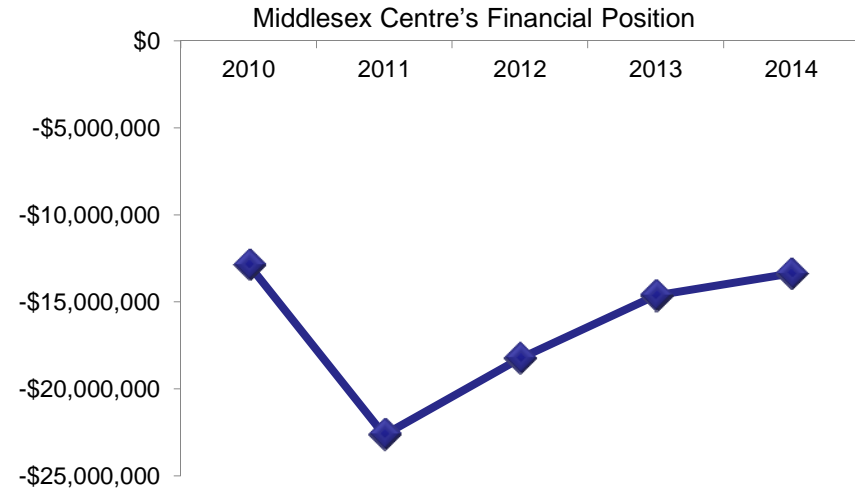
Financial Position

A municipality's financial position is defined as the total fund balances, including equity in business government enterprises, less the amount to be recovered in future years associated with long-term liabilities including water and wastewater operations. A comparison was made of the Municipality's overall financial position (assets less liabilities) from 2010 to 2014.

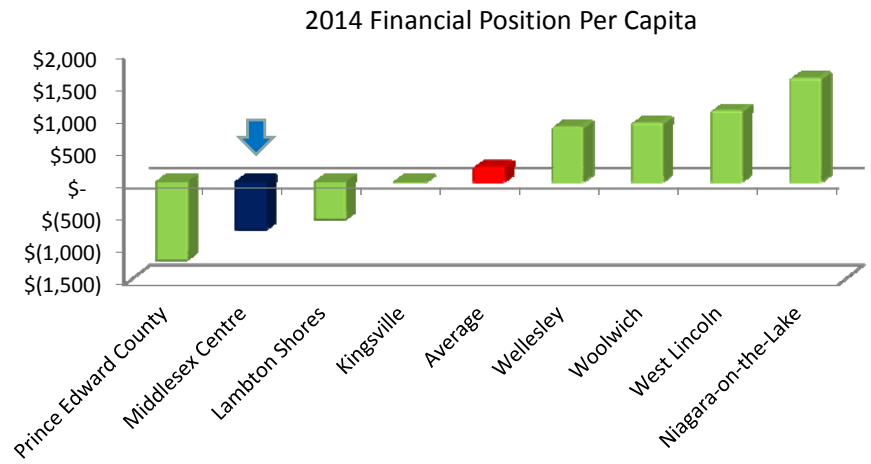
- Middlesex Centre's financial position (assets in excess of liabilities) has been trending up since 2011, however, it is still in a deficit position.
- The following table helps to explain the Municipality's change in financial position from 2010-2014.

| | 2010 | 2014 | Difference | % Difference |
|---------------------------|-----------------------|-----------------------|---------------------|--------------|
| Assets | | | | |
| Cash & Investments | \$ 885,301 | \$ 12,532,453 | \$ 11,647,152 | 1316% |
| Receivables | \$ 8,533,504 | \$ 3,714,005 | \$ (4,819,499) | -56% |
| Other | \$ 168,898 | \$ 343,483 | \$ 174,585 | 103% |
| Total Assets | \$ 9,587,703 | \$ 16,589,941 | \$ 7,002,238 | 73% |
| Liabilities | | | | |
| Accounts Payable | \$ 7,431,113 | \$ 4,197,513 | \$ (3,233,600) | -44% |
| Deferred Revenue | \$ 4,107,775 | \$ 948,898 | \$ (3,158,877) | -77% |
| Long Term Liabilities | \$ 10,907,482 | \$ 24,822,116 | \$ 13,914,634 | 128% |
| Total Liabilities | \$ 22,446,370 | \$ 29,968,527 | \$ 7,522,157 | 34% |
| Financial Position | \$(12,858,667) | \$(13,378,586) | \$ (519,919) | |

- As shown above, the Municipality's assets increased by \$7 million from 2010-2014 and the liabilities increased \$7.5 million.



- A comparison was made of financial position per capita with the peer municipalities. As illustrated below, Middlesex Centre is second lowest in the survey. This indicator needs to be monitored.



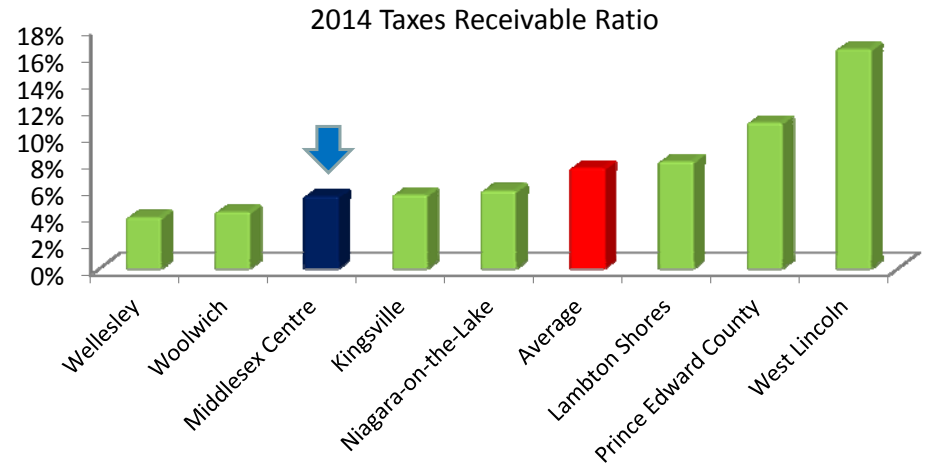
Taxes Receivable

Every year, a percentage of property owners are unable to pay property taxes. If this percentage increases over time, it may indicate an overall decline in the municipality's economic health. If uncollected property taxes rise to more than 8%, credit rating firms consider this a negative factor because it may signal potential instability in the property tax base. The Municipality of Middlesex Centre is **within the range considered to be acceptable**.

- Middlesex Centre's ratio has remained at or below the credit rating limit in every year.



Source: FIRs



- Middlesex Centre's ratio of taxes receivable to taxes levied in 2014 was 5.4% compared with the survey median of 7.5%.







Summary—Financial Indicators Evaluation

The Municipality's financial position has been trending up over the past several years, however, the Municipality of Middlesex Centre, along with virtually all other Ontario municipalities, has an infrastructure deficit that must be addressed. This is reflected in the operating deficit which indicates that the Municipality is not contributing sufficient funds to reserves and capital in relation to the assets that are being used annually.

The Asset Management Plan also concluded that there is an annual infrastructure deficit of approximately \$3.7 million. Strategies will be considered in the LRFP to gradually address the amount of infrastructure deficit and backlog of assets that are due for replacement.

Debt levels are well within industry standards and the Municipality has a healthy level of tax stabilization reserves.

Summary—Financial Indicators

| Indicator | Trend, Observation | Rating |
|---|--|---|
| <i>Tax Reserves as a % of Own Source Revenues</i> | Reserves are slightly higher than the peer municipal average and are trending upward. | <i>Neutral</i> |
| <i>Infrastructure Sustainability Reserve</i> | Infrastructure Stability Reserves have been trending up considerably over the past five years, reflecting a commitment to prudent asset management. However, infrastructure replacement reserves continue to be underfunded. | <i>Neutral</i> |
| <i>Financial Sustainability Reserve</i> | Financial Sustainability Reserves are strong and provide the Municipality with sufficient financial flexibility to address one-time and unforeseen events. |  |
| <i>Corporate Reserves</i> | | <i>Neutral</i> |
| <i>Operating Surplus</i> | Middlesex Centre has an operating deficit ratio of 19%. |  |
| <i>Debt Charges as a % of Own Source Revenues</i> | Debt charges as a percentage of own source revenues is above the peer municipal average but is still well within reasonable levels. | <i>Neutral</i> |
| <i>Debt Outstanding Per Capita</i> | Debt outstanding per capita is higher than the peer municipal average. | <i>Neutral</i> |
| <i>Financial Position</i> | The Municipality's financial position has been gradually improving but continues to be in a negative position. |  |
| <i>Taxes Receivable</i> | Taxes receivable are low in relation to industry standards and also lower than the peer municipalities surveyed. |  |

Municipal Levy, Property Taxes, Water/Wastewater Costs and Affordability

Municipal Levy, Property Taxes, Water and Wastewater Costs and Affordability

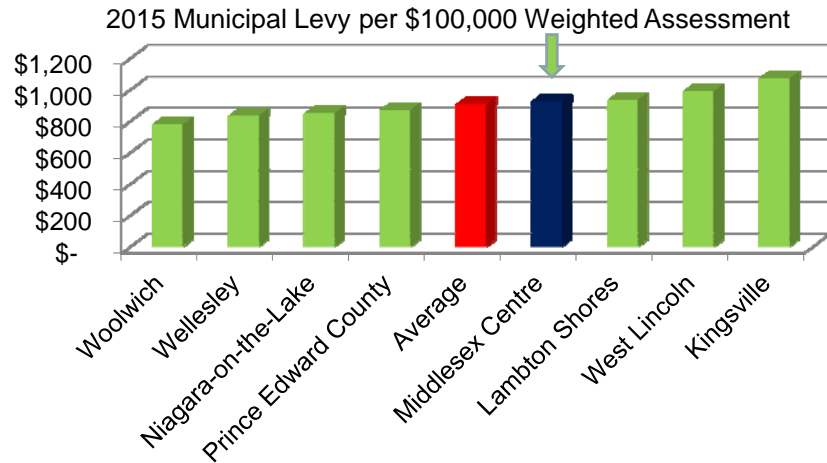
Middlesex Centre takes the management and stewardship of public funds very seriously and continues to demonstrate financial leadership and discipline, ensuring residents receive value for their tax dollars. Prior to establishing a LRFP, it is important to understand the cost of municipal services, as well as affordability metrics, to ensure that there is an alignment between the cost of municipal programs and services and the ability and willingness of taxpayers to support the existing service levels.



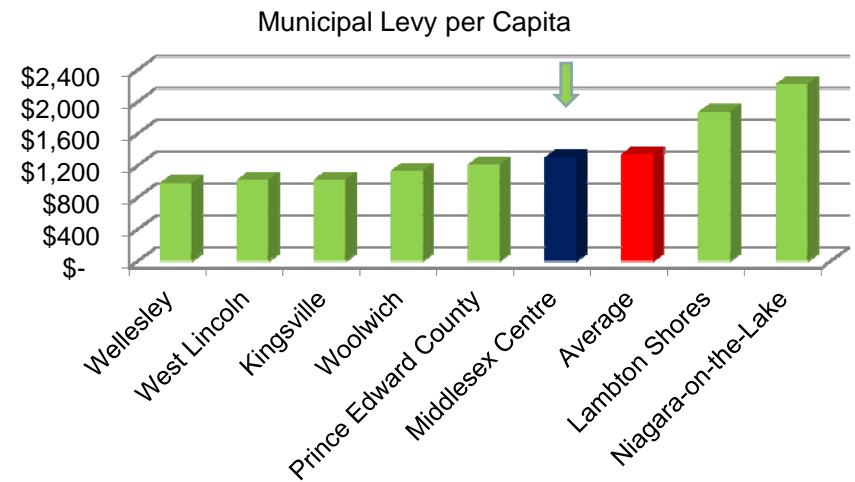
Municipal Levy Per Capita and Per \$100,000 of Assessment Comparison

In order to better understand the relative municipal tax position for the Municipality and to take into consideration the impact of growth, a comparison of net municipal levies on a per \$100,000 of assessment and a per capita was used. This analysis does not indicate value for money or the effectiveness in meeting community objectives as net municipal expenditures may vary as a result of:

- Different service levels;
- Variations in the types of services;
- Different methods of providing services;
- Different residential/non-residential assessment composition;
- Varying demand for services;
- Locational factors;
- Demographic differences;
- Socio-economic differences;
- Urban/rural composition differences;
- User fee policies;
- Age of infrastructure; and
- Use of reserves.



- An analysis was undertaken on the change in total municipal 2015 levy per capita across the peer municipal group. As shown in the following graph, the **Municipality of Middlesex Centre's levy per capita is below the group average.**

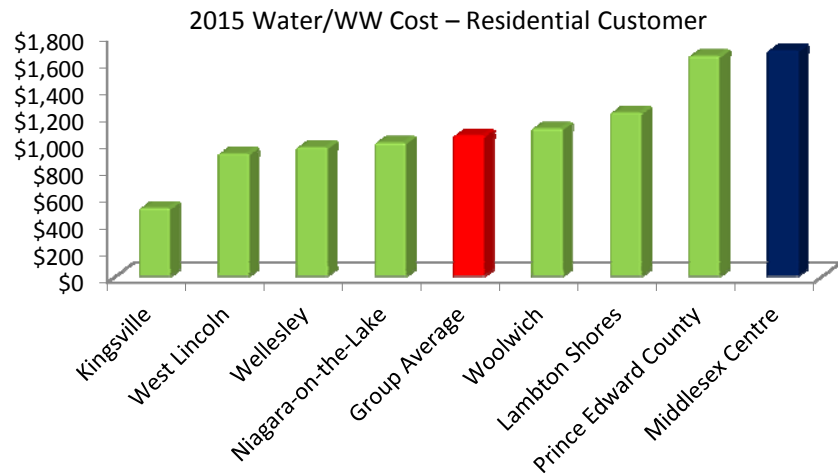


Source: BMA Municipal Study using Levy By-laws

- A comparison of the 2015 levy per \$100,000 of weighted assessment provides an indication of the levy in relation to the assessment base upon which taxes are raised. As shown above, the Municipality of Middlesex Centre is slightly above the peer average.
- Similar to other municipalities, the Municipality of Middlesex Centre faces multiple pressures annually related to costs that are not readily controllable by the Municipality and that are increasing at a rate faster than inflation. As expenditure demands increase, the Municipality's options to meet those demands are restricted to efficiencies, user fees, and lastly taxation. This is exacerbated by declining operating grants from the Province.

Water and Wastewater Residential Cost of Service

The cost of water and wastewater services was compared for a residential customer consuming 200 m³ per year which is considered a typical or average consumption across Ontario. As shown below, the cost of service in Middlesex Centre is the highest in the survey of peer municipalities.



Source: BMA Municipal Study

Affordability

The following table summarizes property tax average dwelling values in relation to household income to gain an appreciation of the property tax burden in Middlesex Centre in relation to peer municipalities.

| | 2015 Average Dwelling Value | 2015 Average Residential Taxes | 2014 Household Income | 2015 Residential Taxes as % Household Income |
|----------------------|--------------------------------------|---|-----------------------------|--|
| Woolwich | \$338,550 | \$ 3,300 | \$ 130,431 | 2.5% |
| Kingsville | \$196,838 | \$ 2,494 | \$ 87,423 | 2.9% |
| Prince Edward County | \$250,416 | \$ 2,714 | \$ 88,515 | 3.1% |
| Lambton Shores | \$234,084 | \$ 2,726 | \$ 83,805 | 3.3% |
| Wellesley | \$363,450 | \$ 3,743 | \$ 109,475 | 3.4% |
| West Lincoln | \$279,450 | \$ 3,377 | \$ 96,516 | 3.5% |
| Niagara-on-the-Lake | \$390,125 | \$ 4,006 | \$ 105,166 | 3.8% |
| Group Average | \$293,273 | \$ 3,194 | \$ 100,190 | 3.2% |
| Group Median | \$279,450 | \$ 3,300 | \$ 96,516 | 3.3% |
| Middlesex Centre | \$355,481 | \$ 3,990 | \$ 127,456 | 3.1% |

- Average dwelling value in the Municipality of Middlesex Centre is third highest in the survey of peer municipalities.
- Municipal property taxes in Middlesex Centre, in relation to household income, were 3.1% in 2015, below the survey average of 3.2%.

| | 2015 Average Residential Taxes | 2015 Average Water/WW Cost | 2015 Total Costs | 2014 Household Income | 2015 Total Residential Burden |
|----------------------|---|-------------------------------------|---------------------|-----------------------------|-------------------------------------|
| Woolwich | \$ 3,300 | \$ 1,104 | \$ 4,404 | \$ 130,431 | 3.4% |
| Kingsville | \$ 2,494 | \$ 508 | \$ 3,002 | \$ 87,423 | 3.4% |
| Wellesley | \$ 3,743 | \$ 962 | \$ 4,705 | \$ 109,475 | 4.3% |
| West Lincoln | \$ 3,377 | \$ 915 | \$ 4,292 | \$ 96,516 | 4.4% |
| Lambton Shores | \$ 2,726 | \$ 1,222 | \$ 3,948 | \$ 83,805 | 4.7% |
| Niagara-on-the-Lake | \$ 4,006 | \$ 997 | \$ 5,003 | \$ 105,166 | 4.8% |
| Prince Edward County | \$ 2,714 | \$ 1,647 | \$ 4,361 | \$ 88,515 | 4.9% |
| Group Average | \$ 3,194 | \$ 1,051 | \$ 4,245 | \$ 100,190 | 4.3% |
| Group Median | \$ 3,300 | \$ 997 | \$ 4,361 | \$ 96,516 | 4.4% |
| Middlesex Centre | \$ 3,990 | \$ 1,687 | \$ 5,677 | \$ 127,456 | 4.5% |

Source: MPAC (dwelling value), BMA Municipal Study (Property Taxes)

Taking into consideration the cost of property taxes as well as water and wastewater costs, an average homeowner pays \$5,677 in Middlesex Centre compared with the peer survey average of \$4,245. Affordability is measured by taking the total municipal burden divided by the average household income. Total municipal burden as a percentage of household income is 4.5% in Middlesex Centre compared with the survey average of 4.3%



Municipal Levy, Property Taxes & Affordability Summary

The following summarizes the Municipality of Middlesex Centre's levy, water and wastewater costs and affordability:

- Levy per capita is close to the peer average on a per \$100,000 of assessment and a per capita basis;
- The average residential income is high in Middlesex Centre;
- Average dwelling values are also high reflecting;
- Below average residential taxes as a percentage of income; and
- Slightly higher than the survey average when water/ww are included.

Summary—Municipal Levy, Property Taxes, Water and Wastewater Costs and Affordability

| Indicator | Trend, Observation | Rating |
|---|---|----------------|
| <i>Municipal Levy Per Capita</i> | Middlesex Centre's municipal levy per capita is slightly below the survey average. | <i>Neutral</i> |
| <i>Municipal Levy Per \$100,000 of assessment</i> | Middlesex Centre's municipal levy per \$100,000 of assessment is slightly above the survey average. | <i>Neutral</i> |
| <i>Affordability</i> | The taxes on an average household in Middlesex Centre is below the survey average. While average house values are higher than the survey average, the average household income is also considerably higher, resulting in a lower than average cost of municipal service in relation to household income. With the inclusion of water/ww costs, the affordability metric of total municipal burden as a percentage of household income is slightly above the survey average. | <i>Neutral</i> |

Tax Supported Long Range Financial Plan Forecast

Tax Supported Forecast Introduction

The LRFP provides a projection of the Municipality’s operating and capital requirements and statement of financial position over the next 10 years. The Government Finance Officers Association (GFOA) recommends that LRFPs have a time horizon of between 5 and 10 years from the current period. Their research indicates that most well managed municipalities maintain a 10 year time horizon and state that results beyond 10 years may be misleading and lead to faulty recommendations and policies. It identifies the key financial strategies that will influence the building of a sustainable long-term financial future.

The LRFP takes into account:

- Expected expenses and capital outlays for each year of the plan;
- Expected revenues for each year and their source;
- Financial performance measures to enable assessment of the Council’s strategic priorities;
- Assumptions that have been used in the development of the LRFP; and
- Sensitivity analysis on key assumptions most likely to affect long-range financial planning and sustainability to ensure that the Municipality is aware of the key levers that will impact the LRFP and that should be monitored over time.

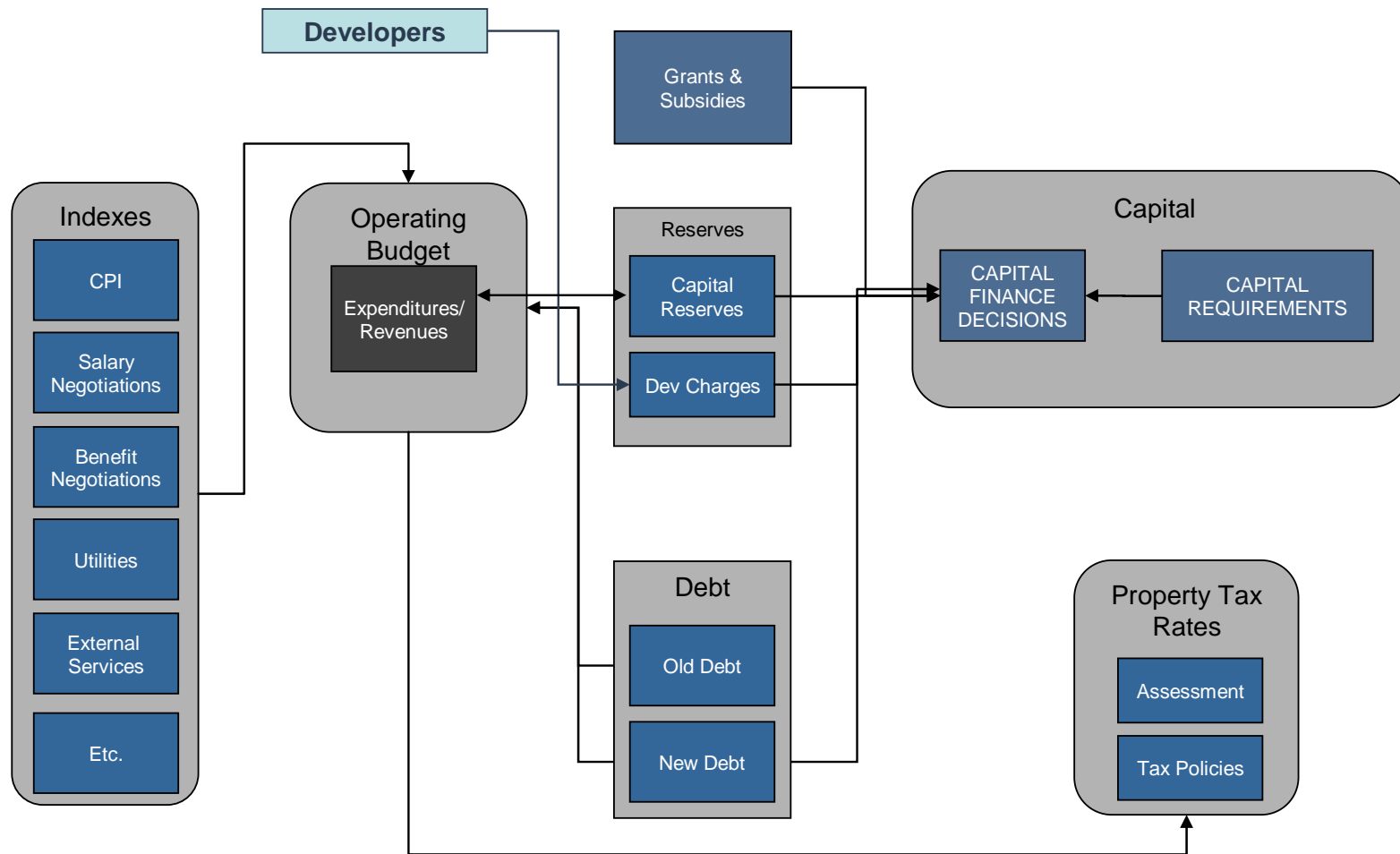
Sources of Information Used in the Development of the LRFP

Numerous sources were used in the development of the plan including:

- **Financial (Health) Condition Assessment**—In order to set the stage for the LRFP, the historical financial trends were considered to ensure that the strengths, weaknesses, opportunities and potential threats were identified. This helped to determine whether the Municipality can sustain current practices based on the underlying financial and environmental factors.
- **Asset Inventories and Asset Condition Assessments**—Significant work has already been undertaken by the Municipality, including the completion of an Asset Management Plan.
- **Financial Policies**—The Municipality has a number of financial policies which set the course for future financial decision-making. The Municipality has existing debt and reserve policies and updates have been made, as identified in the previous section of the report.
- **Multi-Year Budgeting**—The Municipality prepares a five-year capital budget which identifies and incorporates future planned capital requirements. In addition, the Asset Management Plan has been used for years 2022-2025 to extend the forecast over a 10-year period.

Model Development

The LRFP was developed based on an analysis of all factors impacting the capital and operating budget. This forecast includes assumptions with respect to growth, changes in assessment, development charge revenues, interest rates impacting reserves and debt issuance and the Municipality’s financial policies. As shown below, due to the inter-relationship between all components of the plan, changes in any of the assumptions will potentially have an impact throughout the LRFP.



Summary of 2016 Tax Supported Budget Revenues and Expenditures

The following tables summarize the key objects of expenditures and revenues in the Municipality of Middlesex Centre using the 2016 Operating Budget.

| | 2016 | % of total |
|-----------------------------|----------------------|---------------|
| <u>Expenditures</u> | | |
| Sub Contract | \$ 4,749,191 | 22.1% |
| Wages | \$ 4,636,567 | 21.6% |
| Transfers to Reserves | \$ 2,774,065 | 12.9% |
| Capital Contributions | \$ 1,492,011 | 6.9% |
| Other Expenditures | \$ 1,372,045 | 6.4% |
| Benefits | \$ 1,057,482 | 4.9% |
| Materials Purchase | \$ 939,350 | 4.4% |
| Debt Charges | \$ 847,958 | 3.9% |
| Vehicles and Equipment | \$ 825,770 | 3.8% |
| Hydro | \$ 538,200 | 2.5% |
| Insurance | \$ 510,660 | 2.4% |
| Development Servicing Costs | \$ 295,000 | 1.4% |
| Consulting | \$ 244,200 | 1.1% |
| Equipment Repairs & Mtce | \$ 241,850 | 1.1% |
| Building Repairs and Mtce | \$ 224,300 | 1.0% |
| Grounds Mtce | \$ 187,671 | 0.9% |
| Heating | \$ 134,150 | 0.6% |
| Water & Sewer | \$ 122,150 | 0.6% |
| Legal | \$ 120,700 | 0.6% |
| Training | \$ 73,500 | 0.3% |
| Telephone | \$ 60,300 | 0.3% |
| Equipment Rental | \$ 46,968 | 0.2% |
| Total | \$ 21,494,088 | 100.0% |

| | 2016 | % of total |
|------------------------------|------------------------|---------------|
| <u>Revenues</u> | | |
| Property Taxes | \$ (14,514,952) | 67.5% |
| Arena Ice | \$ (1,145,000) | 5.3% |
| OMPF | \$ (1,005,500) | 4.7% |
| Waste and Recycling Revenues | \$ (703,295) | 3.3% |
| Recreation & Culture | \$ (654,917) | 3.0% |
| Gas Tax | \$ (501,257) | 2.3% |
| Building Permits | \$ (451,812) | 2.1% |
| Planning and Development | \$ (386,000) | 1.8% |
| Interest | \$ (350,620) | 1.6% |
| Grants | \$ (334,749) | 1.6% |
| Other Revenues | \$ (324,525) | 1.5% |
| PILs and Suppl | \$ (318,142) | 1.5% |
| Transfer from Reserves | \$ (291,634) | 1.4% |
| Hydro Fit Program | \$ (250,000) | 1.2% |
| POA | \$ (90,000) | 0.4% |
| YMCA Contributions | \$ (85,000) | 0.4% |
| Licences | \$ (59,685) | 0.3% |
| Certificates | \$ (27,000) | 0.1% |
| Total Revenues | \$ (21,494,088) | 100.0% |

Operating Budget Summary

The following summarizes the largest items of expenditure:

- Contributions to the capital program, which includes the capital levy, contributions to reserves and debt charges account for 24% (\$5.1 million) of the total tax operating expenditures. As identified in the 2016 Operating and Capital Budgets which were recently approved by Council, updates have been made to the Asset Management Plan, which will require additional contributions to the capital program. As will be shown in the LRF, increases are required to the existing contributions to close the funding gap.
- Salaries/wages account for approximately 22% of the budget. Increases in salaries/wages are also affected by changes in staffing levels. The Model has assumed no increase in staffing levels but takes into account merit increases and forecast increases in contracts. Forecast annual increases of 4% have been included.
- Contracts represent approximately 22% of the operating budget expenditures which includes numerous Public Works services including composting, disposal, recycling, hardtop resurfacing, loasetop grading, guardrail, catchbasins, curb and cutter, etc. This also includes the police contract.
- Benefits represent 4% of the total operating expenditures. Forecasts going forward have assumed a 2% annual increase.

- Vehicles and Equipment represents approximately 4% of the operating budget (\$0.8 million).

Key revenues include:

- Property Taxes and PILs represent a combined 69% of total revenues and has increased from 53% in 2012. This is driven by a significant reduction in the OMPF grant since 2012 (\$0.7 million reduction).
- The OMPF Grant represents 4.7% of the total revenues (8.4% in 2012). The OMPF grant is anticipated to decline by 5% each year over the forecast period. This places additional pressure on property taxes.
- Waste and Recycling revenues account for 3.3% of total revenues (\$0.7 million) which has increased considerably since the 2012 budget.

Assumptions have been developed for all major items of expenditure and revenues over the forecast period using the best estimates. The table on the next page provides the assumptions used.

Operating Budget Assumptions

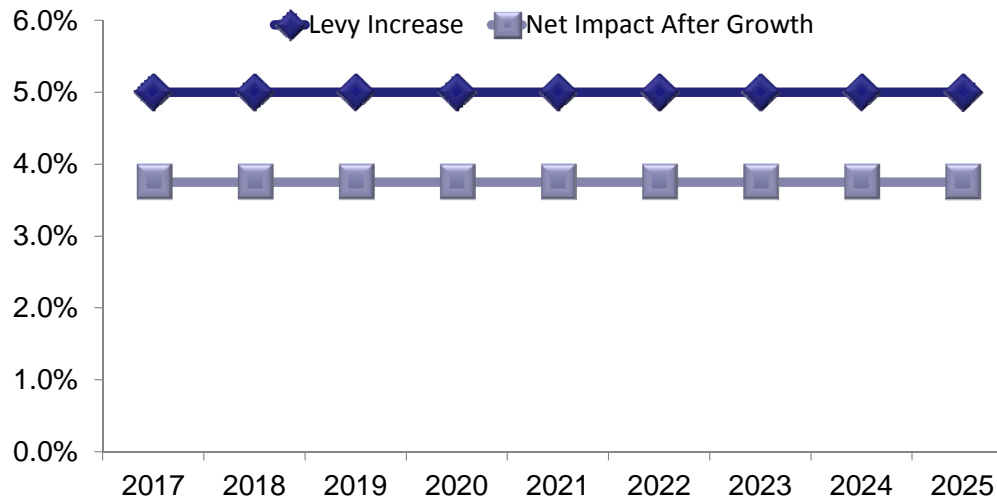
In developing the Operating Budget Forecast a number of factors were analyzed to develop a forecast built on realistic expenditure and revenue assumptions. The following table summarizes the assumed revenue and expenditure increases that have been incorporated into the financial forecast:

| Index Name | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Salaries | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% |
| Benefits | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Supplementaries | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% |
| Police Officers | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Office Supplies | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Equipment Repairs & Maintenance | 2.50% | 2.75% | 3.00% | 3.25% | 3.50% | 3.75% | 4.00% | 4.25% | 4.50% |
| Building Repairs & Maintenance | 2.50% | 2.75% | 3.00% | 3.25% | 3.50% | 3.75% | 4.00% | 4.25% | 4.50% |
| Hydro | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% | 4.00% |
| Water | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% |
| Sub Contract | 4.66% | 4.66% | 4.66% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Heating | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% | 3.50% |
| Insurance | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| OMPF Grant | -5.00% | -5.00% | -5.00% | -5.00% | -5.00% | -5.00% | -5.00% | -5.00% | -5.00% |
| Miscellaneous Expense | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| User Fees | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Licence Permits | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Rev Miscellaneous | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% |
| Assessment Growth | 1.25% | 1.25% | 1.25% | 1.25% | 1.25% | 1.25% | 1.25% | 1.25% | 1.25% |

Debt charges will vary from year to year and are related to debt issuances, not tied to inflationary indexes which will be shown later in the report. Contributions to the reserves will also vary to smooth the tax levy increase annually.

10 Year Operating Budget Forecast

The following graph reflects the net levy increase and the rate increase anticipated after growth has been taken into consideration. Note that this excludes changes in reassessment which does not generate additional revenues.



The tax levy has been smoothed at 5% annual increase to fully fund the capital program and maintain prudent capital reserve balances. With a 1.25% assessment growth assumption, this equates to an increase of approximately 3.75% annually on the net levy. Note that the tax rates have not been factored into this analysis as these will be impacted by reassessment as well as growth in the assessment base.

| (000') | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Tax Levy | \$ 15,241 | \$ 16,003 | \$ 16,803 | \$ 17,643 | \$ 18,525 | \$ 19,451 | \$ 20,424 | \$ 21,445 | \$ 22,517 |
| Tax Levy % Change | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% |
| Assessment Growth * | 1.25% | 1.25% | 1.25% | 1.25% | 1.25% | 1.25% | 1.25% | 1.25% | 1.25% |
| Total | 3.75% | 3.75% | 3.75% | 3.75% | 3.75% | 3.75% | 3.75% | 3.75% | 3.75% |

* Excludes the impact of reassessment

10 Year Tax Capital Budget

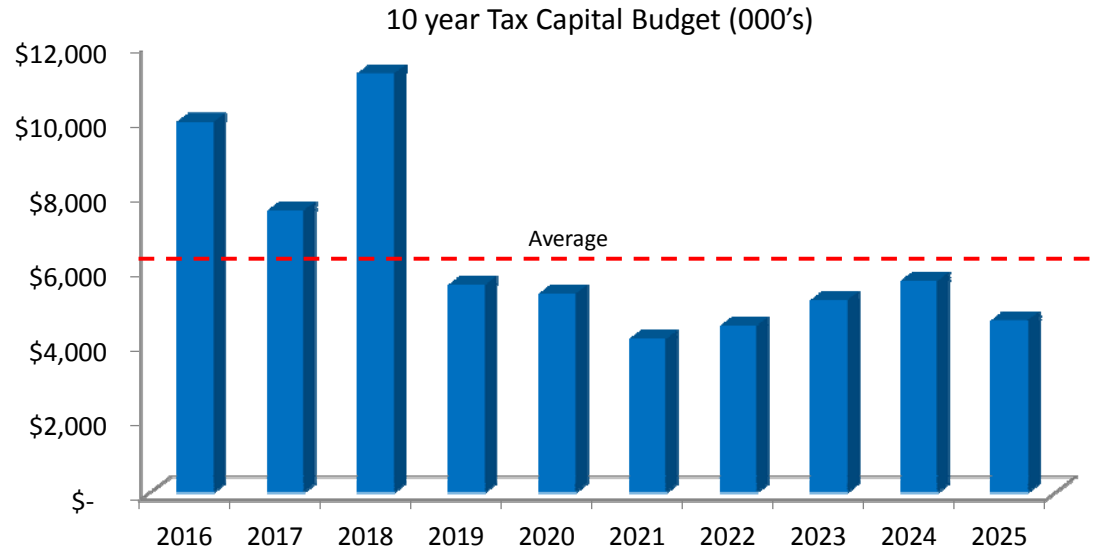
The following table provides the details associated with the Tax Capital Budget by Department.

| (000's) | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | Total |
|-------------------------------------|----------|----------|-----------|----------|----------|----------|----------|----------|----------|----------|-----------|
| Fire | \$ 3,435 | \$ 1,236 | \$ 500 | \$ 425 | \$ 575 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 6,171 |
| <u>Public Works and Engineering</u> | | | | | | | | | | | |
| Construction | \$ 3,319 | \$ 2,969 | \$ 2,660 | \$ 3,064 | \$ 2,807 | \$ 2,820 | \$ - | \$ - | \$ - | \$ - | \$ 17,638 |
| Vehicles & Structures | \$ 998 | \$ 896 | \$ 898 | \$ 788 | \$ 710 | \$ 460 | \$ - | \$ - | \$ - | \$ - | \$ 4,750 |
| Facilities and Structures | \$ 1,994 | \$ 1,171 | \$ 6,939 | \$ 965 | \$ 1,197 | \$ 831 | \$ - | \$ - | \$ - | \$ - | \$ 13,097 |
| <u>Community Services</u> | | | | | | | | | | | |
| Parks & Open Spaces | \$ 133 | \$ 515 | \$ 200 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 848 |
| Facilities | \$ - | \$ 340 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 340 |
| Vehicles & Structures | \$ 25 | \$ 145 | \$ 18 | \$ 145 | \$ 35 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 368 |
| Community Centres and Admin | \$ 30 | \$ 283 | \$ 30 | \$ 175 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 518 |
| <u>Asset Replacement (AMP)</u> | | | | | | | | | | | |
| Roads | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 3,320 | \$ 3,566 | \$ 3,567 | \$ 3,469 | \$ 13,922 |
| Bridges and Culverts | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 665 | \$ 264 | \$ 276 | \$ 1,205 |
| Sidewalks | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 69 | \$ 72 | \$ 72 | \$ 75 | \$ 288 |
| Building and Fixtures | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 353 | \$ 322 | \$ 48 | \$ 193 | \$ 915 |
| Vehicles and Machinery | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 510 | \$ 429 | \$ 1,719 | \$ 434 | \$ 3,093 |
| Equipment | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 206 | \$ 96 | \$ - | \$ 168 | \$ 470 |
| Total Asset Replacement | \$ 9,934 | \$ 7,555 | \$ 11,245 | \$ 5,562 | \$ 5,324 | \$ 4,111 | \$ 4,458 | \$ 5,149 | \$ 5,671 | \$ 4,616 | \$ 63,623 |

As shown above, the 10 year Tax Capital Budget is \$63.6 million; an average annual spending of \$6.4 million. Based on the existing contributions to capital, a phase-in strategy is needed to support the capital plan.

Tax Capital Budget

The Capital Budget was developed using the Municipality’s existing 5 year Capital Budget, with the remaining 5 years provided by utilizing the Asset Management Plan. The recommended approach is to gradually build the contributions to reserves and capital funding over time.

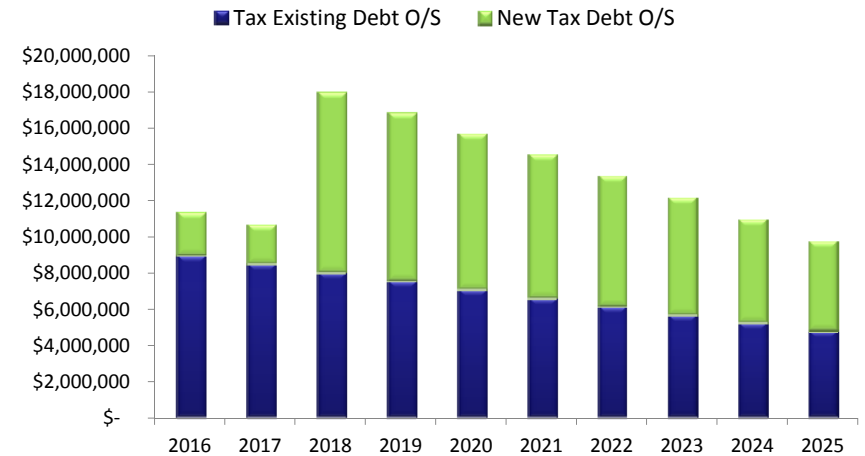
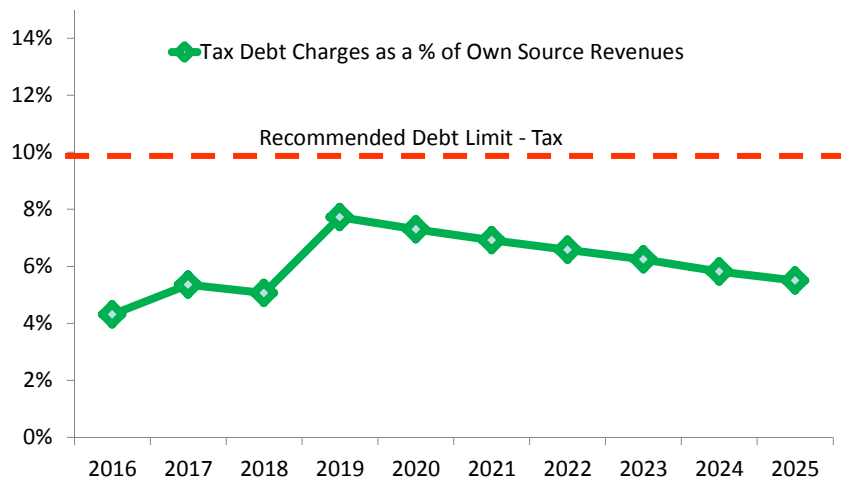


The table below reflects the capital program and the capital financing plan for the tax related capital programs.

| (000's) | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | Total |
|--------------------------|-----------------|-----------------|------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|
| Capital Financing | | | | | | | | | | | |
| DCs | \$ 1,766 | \$ 306 | \$ - | \$ - | \$ 278 | \$ 1,250 | \$ - | \$ - | \$ - | \$ - | \$ 3,600 |
| Other | \$ 307 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 307 |
| Capital Reserves | \$ 5,482 | \$ 7,249 | \$ 3,245 | \$ 5,562 | \$ 5,045 | \$ 2,861 | \$ 4,458 | \$ 5,149 | \$ 5,671 | \$ 4,616 | \$ 49,337 |
| Debt | \$ 2,379 | \$ - | \$ 8,000 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 10,379 |
| Total | \$ 9,934 | \$ 7,555 | \$ 11,245 | \$ 5,562 | \$ 5,324 | \$ 4,111 | \$ 4,458 | \$ 5,149 | \$ 5,671 | \$ 4,616 | \$ 63,623 |

10 Year Tax Debt Summary

Tax debt charges as a percentage of own source revenues is maintained below the recommended threshold of 10%. This ensures that there is sufficient financial flexibility. Over the next 10 years, the forecast includes \$10.4 million in debt issued to support the tax capital program.

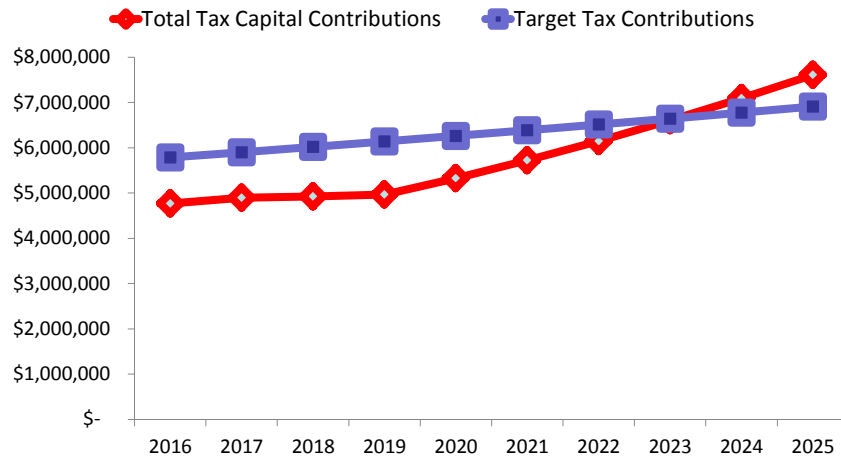


As shown above, the tax debt outstanding peaks in 2018 and then gradually declines over the forecast period.

New debt was issued at the most current Infrastructure Ontario rates as follows:

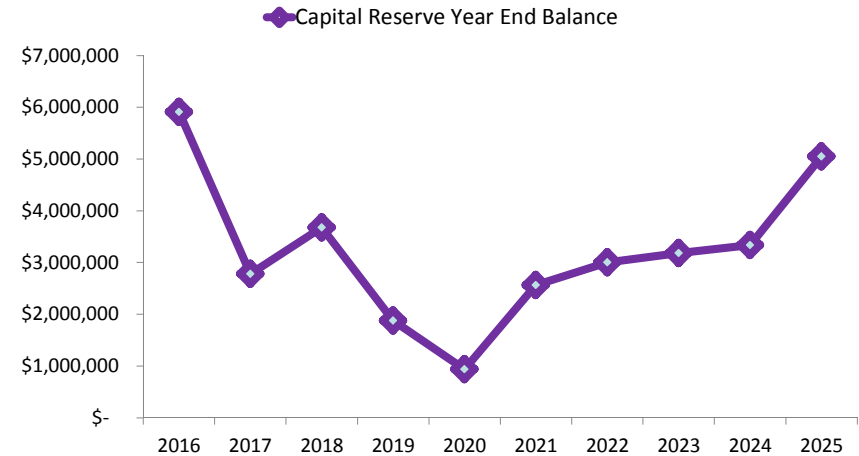
- 2016 debt 10 year term at 2.36% (\$2.4 million)
- 2018 debt 15 year term at 2.85% (\$8 million)

10 Year Tax Capital Contribution Summary



- As shown above, the forecast includes a gradual increase in the contributions to the capital program through a combination of debt issuance and reserve contributions.
- The target for tax capital contributions is based on the findings in the Asset Management Plan and also the Capital Budget that was prepared by staff.
- In 2016, the total tax capital contributions was \$4.8 million. The target for 2016, in accordance with the asset management plan is \$5.8 million. By 2023, the annual contributions will be at a level that will support the timely replacement of assets.

10 Year Tax Capital Reserve Summary



- As shown above, the Tax Capital Reserve year-end balance varies from year-to-year based on the capital requirements.
- The 10-year Tax Capital program includes \$49.3 million in capital reserve contributions.

Water and Wastewater Long Range Financial Plan Forecast

Water and Wastewater Forecast

A report was prepared in late 2015 to provide Council with a 10-year financial plan for water and wastewater operations. This was also required to meet the Provincial requirements as set out in O.Reg. 453/07. The details of this plan are available in a separate report, however, an overview has been included in this report to provide a consolidated financial plan for tax and water/wastewater operations. The following summarizes the key challenges, risks and opportunities to long-term financial sustainability which have been addressed as part of the Financial Plan:

- **Increasing Costs, Many of Which are Uncontrollable**—A number of the Municipality’s water costs are expected to increase at a pace faster than inflation. For example, insurance costs, electricity, purchase of water and third party contract costs are forecast to increase at rates above general CPI. Assumptions have been made to reflect the impact of these increased costs on future operating budgets.
- **Asset Renewal/Replacement**—Like most municipalities in Canada, Middlesex Centre faces a continued struggle to renew and replace aging water capital assets. The Municipality has incorporated into its 10 year plan, a gradual increase in the contributions to support financial sustainability.
- **Regulatory and Legislative Environment**—Municipalities across Ontario have consistently identified legislative and regulatory changes and requirements as a major factor driving the cost of service over the past 10 years and will continue to be a factor well into the future.
- **Meter Change Out and Leak Repair Program** —The Municipality is in the final stages of completing a meter change out program which should help to reduce non-revenue water losses and help to stabilize revenues. Further, significant work has been undertaken to address leaks in the mains. Adjustments have been made to the billable consumption to reflect these improvements.
- **Growth Related Challenges**—The capital budget is driven by the need for asset replacement as well as significant growth related costs. The Capital Plan includes significant contributions from the Development Charge Reserve Funds to pay for growth related capital. Based on the existing reserve balances and projected contributions to the development charges reserves, there are significant shortfalls anticipated in the Development Charge Reserve Funds in the short to mid term which will be funded from debt should the projects proceed as planned.
- **Revenue Challenges Related to Unpredictable Consumption**—Billable consumption fluctuates annually based on weather conditions, growth and business expansions/retractions. Trends have been reviewed and forecast growth has been incorporated into the assumptions. Further, the plan ensures that minimum reserve balances are maintained.

10 Year Water Operating Budget Forecast

The Municipality’s objective in establishing the Water rates is to avoid large fluctuations from year to year and to ensure that rates are set at a level to adequately cover current operating costs, maintain and repair the Municipality’s existing asset base and replace assets where appropriate. The following table reflects the water operating budget forecast.

| Water Operating (000's) | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|-----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Revenues | | | | | | | | | | |
| Metered Water Revenue | \$ 1,935 | \$ 2,041 | \$ 2,153 | \$ 2,272 | \$ 2,397 | \$ 2,528 | \$ 2,667 | \$ 2,814 | \$ 2,969 | \$ 3,132 |
| Infrastructure Lifecycle Reserve | \$ 746 | \$ 787 | \$ 830 | \$ 876 | \$ 924 | \$ 975 | \$ 1,028 | \$ 1,085 | \$ 1,145 | \$ 1,208 |
| Transfer from DC Reserves - Debt | \$ 178 | \$ 174 | \$ 170 | \$ 165 | \$ 161 | \$ 158 | \$ 155 | \$ 152 | \$ 149 | \$ 146 |
| Other Service Charges | \$ 109 | \$ 109 | \$ 110 | \$ 110 | \$ 111 | \$ 111 | \$ 112 | \$ 112 | \$ 113 | \$ 113 |
| Total Revenues | \$ 2,967 | \$ 3,111 | \$ 3,263 | \$ 3,423 | \$ 3,592 | \$ 3,772 | \$ 3,962 | \$ 4,163 | \$ 4,375 | \$ 4,600 |
| Operating Expenditures | | | | | | | | | | |
| Salaries, Wages & Benefits | \$ 111 | \$ 113 | \$ 114 | \$ 116 | \$ 117 | \$ 119 | \$ 121 | \$ 122 | \$ 124 | \$ 126 |
| Water Purchase | \$ 490 | \$ 526 | \$ 566 | \$ 443 | \$ 472 | \$ 501 | \$ 533 | \$ 566 | \$ 601 | \$ 639 |
| Hydro | \$ 77 | \$ 81 | \$ 85 | \$ 89 | \$ 94 | \$ 98 | \$ 103 | \$ 108 | \$ 114 | \$ 119 |
| Contracts | \$ 1,126 | \$ 1,172 | \$ 1,309 | \$ 1,346 | \$ 1,414 | \$ 1,372 | \$ 1,427 | \$ 1,484 | \$ 1,543 | \$ 1,605 |
| Other Expenses | \$ 119 | \$ 121 | \$ 123 | \$ 126 | \$ 128 | \$ 131 | \$ 134 | \$ 137 | \$ 140 | \$ 143 |
| Total Operating Expenses | \$ 1,923 | \$ 2,013 | \$ 2,198 | \$ 2,120 | \$ 2,225 | \$ 2,222 | \$ 2,317 | \$ 2,417 | \$ 2,522 | \$ 2,631 |
| Financial Expenditures | | | | | | | | | | |
| Debt Charges - Interest Payments | \$ 134 | \$ 124 | \$ 242 | \$ 229 | \$ 216 | \$ 204 | \$ 192 | \$ 181 | \$ 170 | \$ 160 |
| Debt Charges - Principal Payments | \$ 243 | \$ 245 | \$ 371 | \$ 375 | \$ 380 | \$ 385 | \$ 390 | \$ 395 | \$ 401 | \$ 406 |
| Transfer to Reserves | \$ 667 | \$ 729 | \$ 452 | \$ 698 | \$ 771 | \$ 962 | \$ 1,063 | \$ 1,169 | \$ 1,283 | \$ 1,402 |
| Total Financial Expenses | \$ 1,044 | \$ 1,098 | \$ 1,065 | \$ 1,302 | \$ 1,367 | \$ 1,551 | \$ 1,645 | \$ 1,746 | \$ 1,854 | \$ 1,968 |
| Total Expenses | \$ 2,967 | \$ 3,111 | \$ 3,263 | \$ 3,423 | \$ 3,592 | \$ 3,772 | \$ 3,962 | \$ 4,163 | \$ 4,375 | \$ 4,600 |

10 Year Wastewater Operating Budget Forecast

The Municipality’s objective in establishing the Wastewater rates is to avoid large fluctuations from year to year and to ensure that rates are set at a level to adequately cover current operating costs, maintain and repair the Municipality’s existing asset base and replace assets where appropriate. The following table reflects the wastewater operating budget forecast.

| Wastewater Operating (000's) | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|-----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Revenues | | | | | | | | | | |
| Metered WW Revenue | \$ 1,831 | \$ 1,941 | \$ 2,057 | \$ 2,181 | \$ 2,311 | \$ 2,450 | \$ 2,597 | \$ 2,753 | \$ 2,918 | \$ 3,093 |
| Infrastructure Lifecycle Reserve | \$ 552 | \$ 585 | \$ 620 | \$ 657 | \$ 696 | \$ 738 | \$ 783 | \$ 829 | \$ 879 | \$ 932 |
| Transfer from DC Reserves - Debt | \$ 675 | \$ 666 | \$ 657 | \$ 556 | \$ 456 | \$ 448 | \$ 441 | \$ 433 | \$ 426 | \$ 420 |
| Other Service Charges | \$ 132 | \$ 132 | \$ 132 | \$ 132 | \$ 132 | \$ 132 | \$ 132 | \$ 132 | \$ 132 | \$ 132 |
| Total Operating Revenues | \$ 3,189 | \$ 3,323 | \$ 3,466 | \$ 3,525 | \$ 3,596 | \$ 3,768 | \$ 3,952 | \$ 4,147 | \$ 4,355 | \$ 4,577 |
| Operating Expenditures | | | | | | | | | | |
| Salaries, Wages & Benefits | \$ 37 | \$ 37 | \$ 37 | \$ 38 | \$ 39 | \$ 39 | \$ 40 | \$ 40 | \$ 41 | \$ 41 |
| Hydro | \$ 280 | \$ 294 | \$ 309 | \$ 324 | \$ 340 | \$ 357 | \$ 375 | \$ 394 | \$ 414 | \$ 434 |
| Contracts | \$ 1,057 | \$ 1,047 | \$ 1,300 | \$ 1,255 | \$ 1,266 | \$ 1,488 | \$ 1,355 | \$ 1,405 | \$ 1,457 | \$ 1,511 |
| Other Expenses | \$ 126 | \$ 129 | \$ 132 | \$ 136 | \$ 139 | \$ 142 | \$ 146 | \$ 150 | \$ 154 | \$ 158 |
| Total Operating Expenses | \$ 1,499 | \$ 1,507 | \$ 1,778 | \$ 1,753 | \$ 1,784 | \$ 2,027 | \$ 1,916 | \$ 1,989 | \$ 2,065 | \$ 2,145 |
| Financial Expenditures | | | | | | | | | | |
| Debt Charges - Interest Payments | \$ 340 | \$ 317 | \$ 298 | \$ 283 | \$ 268 | \$ 253 | \$ 239 | \$ 227 | \$ 215 | \$ 204 |
| Debt Charges - Principal Payments | \$ 746 | \$ 756 | \$ 665 | \$ 536 | \$ 408 | \$ 411 | \$ 393 | \$ 395 | \$ 397 | \$ 400 |
| Transfer to Reserves | \$ 604 | \$ 742 | \$ 725 | \$ 954 | \$ 1,136 | \$ 1,077 | \$ 1,403 | \$ 1,536 | \$ 1,678 | \$ 1,829 |
| Total Financial Expenses | \$ 1,690 | \$ 1,816 | \$ 1,687 | \$ 1,773 | \$ 1,811 | \$ 1,741 | \$ 2,035 | \$ 2,158 | \$ 2,290 | \$ 2,432 |
| Total Expenses | \$ 3,189 | \$ 3,323 | \$ 3,466 | \$ 3,525 | \$ 3,596 | \$ 3,768 | \$ 3,952 | \$ 4,147 | \$ 4,355 | \$ 4,577 |

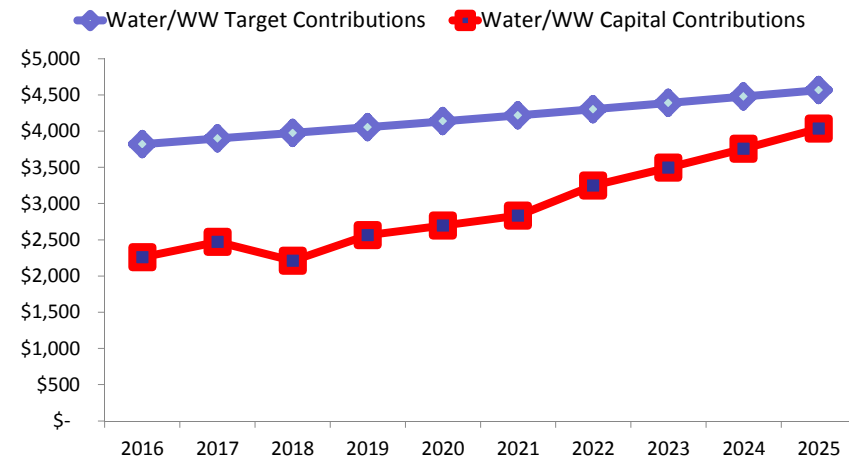
Addressing the Annual Funding Shortfall

- Consistent with the recommendations contained in the AMP, a recommended target is for the Municipality to make annual contributions to the capital program based on replacement cost requirements.
- The following table reflects the extent of the challenge.

| Annual Contributions (000's) | Water | WW |
|---------------------------------------|-----------------|-----------------|
| Current Reserve Contribution | \$ 686 | \$ 654 |
| Debt Principal Payment | \$ 243 | \$ 746 |
| Recommended Contribution (AMP) | \$ 1,592 | \$ 2,229 |
| Total Funding Gap | \$ (662) | \$ (829) |

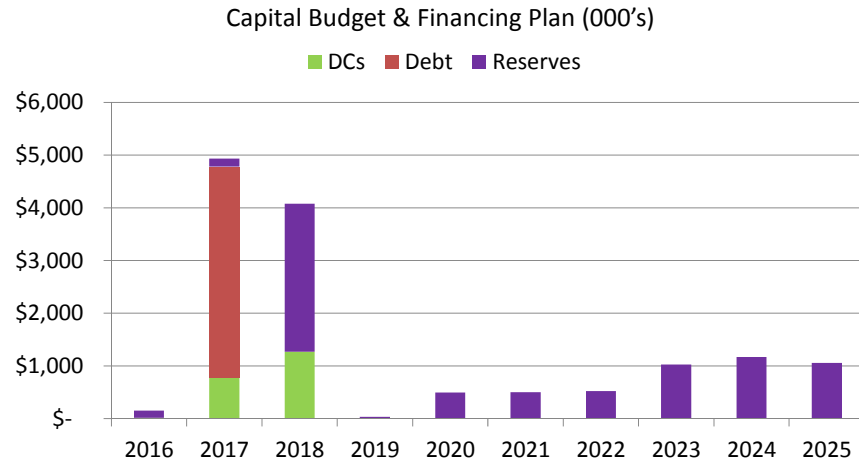
- The 2016 annual contribution to the capital program which includes contributions to the capital reserves and the payment of debt principal is lower than the recommended contributions as identified in the AMP (Note: 2013 targets have been adjusted for inflation).
- For example, there is an annual funding shortfall in the water capital program of approximately \$662,000 and, in the wastewater program, the annual shortfall is estimated to be \$829,000. The plan that has been developed, gradually increases contributions to the capital program over the 10 year forecast to achieve these suggested targets.

- As shown below, by 2025, the annual contributions to the capital program approach the targeted contributions.



Summary of Water Capital Budget Forecast

The following table summarizes the Capital Budget forecast for the next 10 years and the associated funding source.

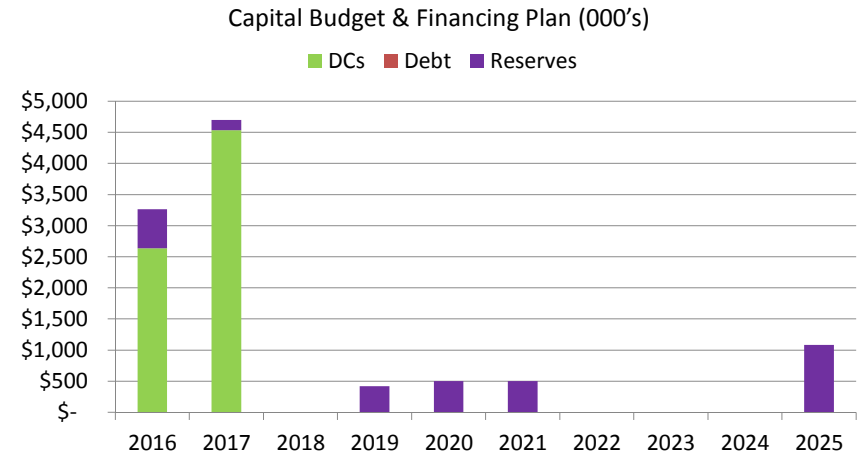


The 10 year capital plan, from 2016-2025 includes:

- \$2.1 million of capital that will be funded from Development Charges in accordance with the Municipality’s budget
- \$7.9 million that will be funded from the Municipality’s Water Reserve
- \$4 million that will be funded through Debt

Summary of Wastewater Capital Budget Forecast

The following table summarizes the Capital Budget forecast for the next 10 years and the associated funding source.

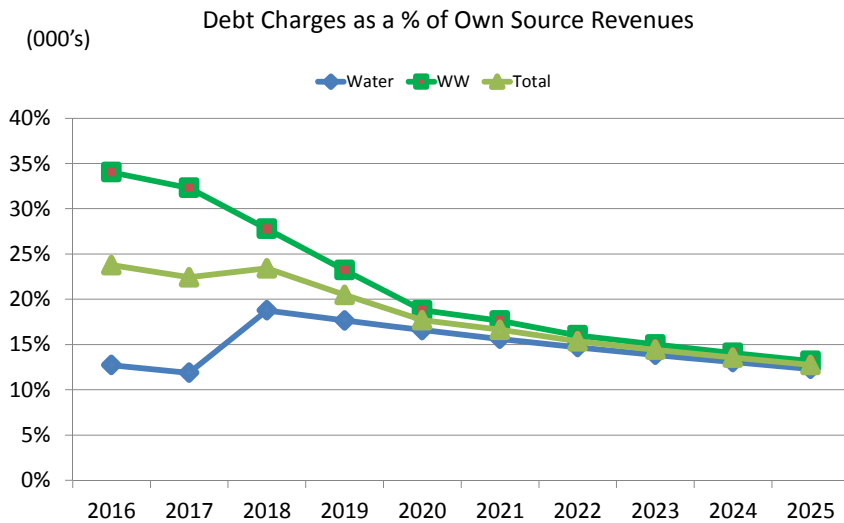


The 10 year capital plan, from 2016-2025 includes:

- \$7.2 million of capital that will be funded from Development Charges in accordance with the Municipality’s budget
- \$3.3 million that will be funded from the Municipality’s Wastewater Reserve
- No debt is required over the 10 year period

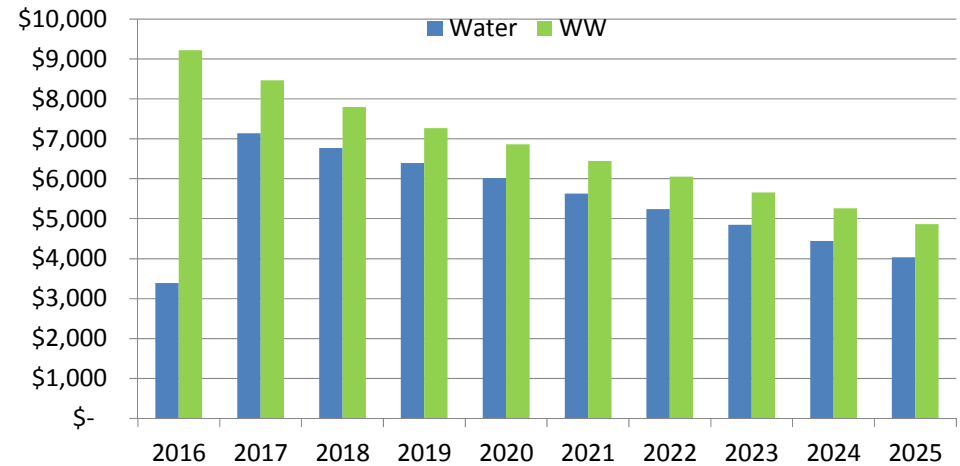
10 Year Water and Wastewater Debt Summary

The following graph provides a summary of the debt charges as a percentage of own source revenues and the total debt outstanding for water and wastewater over the next 10 years.



- As shown above, debt charges are declining over the 10 year forecast. However the existing debt charges as a percentage of own source revenues is above the recommended limit of 15%.

Debt Outstanding (000's)



- Debt outstanding for water and wastewater are shown above. Over the 10 year period there is an anticipated issuance of \$4 million in debt for water.
- Over the 10 year period, the debt outstanding gradually declines.

Summary

Summary

The Municipality of Middlesex Centre is proactively planning for its future by developing forecasts to identify the future implications of decisions made today. In 2012, the Municipality undertook a comprehensive Long Range Financial Plan (LRFP). The purpose of this report is to update the long range financial plan for tax and water/wastewater services over the next 10 years using the most currently information available. This report utilizes financial policies that were implemented in 2012 with some additional recommended policies. Further, the LRFP uses the following information:

- 2016 Operating Budget;
- 2016-2021 Capital Budget;
- 2013 Asset Management Plan;
- 2015 year end reserve balances;
- 2015 existing debt levels;
- Infrastructure Ontario borrowing rates;
- Operating expenditure assumptions as provided by the Municipality for major items of expenditures including salaries, benefits, contracts, hydro, etc.;
- Assessment growth; and
- Water consumption forecast

Sustainability, by definition, focuses on the ability to maintain an activity over an extended time horizon. To ensure that the Municipality is operating on a sustainable basis, the Municipality's multi-year forecast attempts to allocate the limited resources available to achieve the Municipality's objectives and establish priorities.

The LRFP attempts to strike the right balance between financial sustainability and taxpayer/ratepayer affordability. As such, while there is a recognized funding gap, a phase-in strategy is recommended to recognize affordability constraints. The following reflects the recommended annual increases to support financial sustainability:

- The annual net tax levy increase recommended to support financial sustainability is 5% (3.75% net of assessment growth) over the next 10 years.
- The forecast includes water rate revenue requirement increases of 5.5% annually and wastewater increases of 6% annually from 2017 onward. The annual water and wastewater rate increases paid by customers will be approximately 3.5% for water and 4% for wastewater, taking into consideration growth in the number of customers and consumption.

Summary of Key Financial Indicators

| (000's) | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Debt Charges | | | | | | | | | | |
| Water | \$ 378 | \$ 369 | \$ 612 | \$ 604 | \$ 596 | \$ 589 | \$ 583 | \$ 577 | \$ 571 | \$ 566 |
| WW | \$ 1,086 | \$ 1,073 | \$ 963 | \$ 819 | \$ 676 | \$ 664 | \$ 633 | \$ 622 | \$ 612 | \$ 603 |
| Tax | \$ 848 | \$ 1,095 | \$ 1,078 | \$ 1,712 | \$ 1,683 | \$ 1,663 | \$ 1,647 | \$ 1,631 | \$ 1,584 | \$ 1,561 |
| Total | \$ 2,311 | \$ 2,537 | \$ 2,653 | \$ 3,135 | \$ 2,955 | \$ 2,917 | \$ 2,863 | \$ 2,830 | \$ 2,768 | \$ 2,730 |

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|-------------|-------------|-------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Debt Charges Indicator | | | | | | | | | | |
| Water Debt Charges as a % of OSR | 12.7% | 11.9% | 18.8% | 17.6% | 16.6% | 15.6% | 14.7% | 13.9% | 13.1% | 12.3% |
| WW Debt Charges as a % of OSR | 34.0% | 32.3% | 27.8% | 23.2% | 18.8% | 17.6% | 16.0% | 15.0% | 14.1% | 13.2% |
| Water/WW Debt Charges as a % of OSR | 23.8% | 22.4% | 23.4% | 20.5% | 17.7% | 16.6% | 15.4% | 14.4% | 13.6% | 12.7% |
| Tax Debt Charges as a % of OSR | 4.3% | 5.4% | 5.1% | 7.7% | 7.3% | 6.9% | 6.6% | 6.2% | 5.8% | 5.5% |
| Total Debt Charges as a % of OSR | 9.0% | 9.4% | 9.5% | 10.8% | 9.8% | 9.2% | 8.7% | 8.2% | 7.7% | 7.3% |

| (000's) | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|-----------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Debt Principal Outstanding | | | | | | | | | | |
| Water - Existing | \$ 3,387 | \$ 3,142 | \$ 2,918 | \$ 2,693 | \$ 2,469 | \$ 2,244 | \$ 2,020 | \$ 1,796 | \$ 1,571 | \$ 1,347 |
| Water - New | \$ - | \$ 4,000 | \$ 3,854 | \$ 3,703 | \$ 3,547 | \$ 3,386 | \$ 3,221 | \$ 3,050 | \$ 2,873 | \$ 2,691 |
| WW - Existing | \$ 9,223 | \$ 8,467 | \$ 7,802 | \$ 7,266 | \$ 6,858 | \$ 6,447 | \$ 6,053 | \$ 5,658 | \$ 5,260 | \$ 4,861 |
| Tax - Existing | \$ 8,922 | \$ 8,452 | \$ 7,983 | \$ 7,513 | \$ 7,044 | \$ 6,574 | \$ 6,105 | \$ 5,636 | \$ 5,197 | \$ 4,759 |
| Tax - New | \$ 2,379 | \$ 2,166 | \$ 9,947 | \$ 9,288 | \$ 8,611 | \$ 7,917 | \$ 7,203 | \$ 6,471 | \$ 5,719 | \$ 4,946 |
| Total | \$ 23,911 | \$ 26,227 | \$ 32,503 | \$ 30,463 | \$ 28,529 | \$ 26,569 | \$ 24,602 | \$ 22,609 | \$ 20,621 | \$ 18,604 |

Summary of Key Financial Indicators Cont'd

| (000's) | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|----------|----------|----------|----------|----------|----------|----------|-----------|-----------|-----------|
| Capital Reserves - Ending Balances | | | | | | | | | | |
| Water Capital Reserve Year End Balance | \$ 1,077 | \$ 1,684 | \$ (688) | \$ (17) | \$ 259 | \$ 728 | \$ 1,294 | \$ 1,462 | \$ 1,604 | \$ 1,988 |
| WW Capital Reserve Year End Balance | \$ (380) | \$ 199 | \$ 942 | \$ 1,503 | \$ 2,177 | \$ 2,809 | \$ 4,297 | \$ 5,949 | \$ 7,779 | \$ 8,694 |
| Tax Capital Reserve Year End Balance | \$ 5,908 | \$ 2,783 | \$ 3,680 | \$ 1,876 | \$ 939 | \$ 2,565 | \$ 3,001 | \$ 3,182 | \$ 3,339 | \$ 5,049 |
| Total Capital Reserve Year End Balance | \$ 6,605 | \$ 4,666 | \$ 3,933 | \$ 3,362 | \$ 3,376 | \$ 6,103 | \$ 8,592 | \$ 10,593 | \$ 12,721 | \$ 15,731 |

| (000's) | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|--------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Water Contribution to Capital | | | | | | | | | | |
| Contribution to Reserves | \$ 667 | \$ 729 | \$ 452 | \$ 698 | \$ 771 | \$ 962 | \$ 1,063 | \$ 1,169 | \$ 1,283 | \$ 1,402 |
| Debt Charges - Principal | \$ 243 | \$ 245 | \$ 371 | \$ 375 | \$ 380 | \$ 385 | \$ 390 | \$ 395 | \$ 401 | \$ 406 |
| Total Water Capital Contributions | \$ 910 | \$ 974 | \$ 823 | \$ 1,074 | \$ 1,151 | \$ 1,347 | \$ 1,453 | \$ 1,565 | \$ 1,683 | \$ 1,809 |
| Target Water Contributions | \$ 1,592 | \$ 1,624 | \$ 1,656 | \$ 1,689 | \$ 1,723 | \$ 1,757 | \$ 1,793 | \$ 1,828 | \$ 1,865 | \$ 1,902 |

| | | | | | | | | | | |
|---|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Wastewater Contribution to Capital | | | | | | | | | | |
| Contribution to Reserves | \$ 604 | \$ 742 | \$ 725 | \$ 954 | \$ 1,136 | \$ 1,077 | \$ 1,403 | \$ 1,536 | \$ 1,678 | \$ 1,829 |
| Debt Charges - Principal | \$ 746 | \$ 756 | \$ 665 | \$ 536 | \$ 408 | \$ 411 | \$ 393 | \$ 395 | \$ 397 | \$ 400 |
| Total WW Capital Contributions | \$ 1,350 | \$ 1,499 | \$ 1,389 | \$ 1,490 | \$ 1,544 | \$ 1,488 | \$ 1,796 | \$ 1,931 | \$ 2,075 | \$ 2,228 |
| Target WW Contributions | \$ 2,229 | \$ 2,273 | \$ 2,319 | \$ 2,365 | \$ 2,412 | \$ 2,460 | \$ 2,510 | \$ 2,560 | \$ 2,611 | \$ 2,663 |

| | | | | | | | | | | |
|------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Tax Contribution to Capital | | | | | | | | | | |
| Tax Contribution to Reserves | \$ 4,266 | \$ 4,179 | \$ 4,199 | \$ 3,817 | \$ 4,170 | \$ 4,550 | \$ 4,959 | \$ 5,397 | \$ 5,897 | \$ 6,399 |
| Debt Charges - Principal | \$ 505 | \$ 716 | \$ 722 | \$ 1,151 | \$ 1,156 | \$ 1,171 | \$ 1,191 | \$ 1,210 | \$ 1,199 | \$ 1,213 |
| Total Tax Capital Contributions | \$ 4,771 | \$ 4,895 | \$ 4,921 | \$ 4,968 | \$ 5,326 | \$ 5,721 | \$ 6,149 | \$ 6,607 | \$ 7,096 | \$ 7,612 |
| Total Tax Target Contributions | \$ 5,784 | \$ 5,899 | \$ 6,017 | \$ 6,138 | \$ 6,260 | \$ 6,386 | \$ 6,513 | \$ 6,644 | \$ 6,776 | \$ 6,912 |

The LRFP is Dynamic—Regular Updates Will Be Undertaken

Although great effort has been made to present accurate financial projections, based upon the data available at this time, a LRFP is a **dynamic document** and should be updated and re-evaluated, on an ongoing basis. As such, the LRFP should be considered a work-in-progress. It is not an exercise in precision; rather it is intended for use as a forecasting tool to ensure that the Municipality is on the right course to meet its financial obligations and future challenges.

The intent is to provide Council with updates to this document, so it will be useful in the ongoing cycle of business planning and budgeting. It is anticipated that updates to the LRFP will be required as assumptions, projections and strategies change over time.

It is recommended that the assumptions used in the LRFP be modified and refined, at least annually and as new information becomes available that could materially change the forecast.

