



Financial Condition Assessment



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Introduction – Financial Condition Assessment

BMA Management Consulting Inc. (BMA) was engaged by the Municipality of North Middlesex to undertake a **Financial Condition Assessment** as part of the Line-By-Line Budget Analysis.

The intent of a Financial Condition Assessment is to evaluate, through trend analysis, assessments, performance indicators, benchmarking, the Municipality's past performance, financial outlook, and to identify key areas of focus. The Financial Condition Assessment was evaluated using the Canadian Public Accountant (CPA) Canada guidelines which recommend consideration of the following:



Sustainability

The ability to provide and maintain existing programs without resorting to unplanned tax increases in rates or cuts to services.

Flexibility

The ability to issue debt responsibly without impacting the credit rating. Also, the ability to generate required revenues.

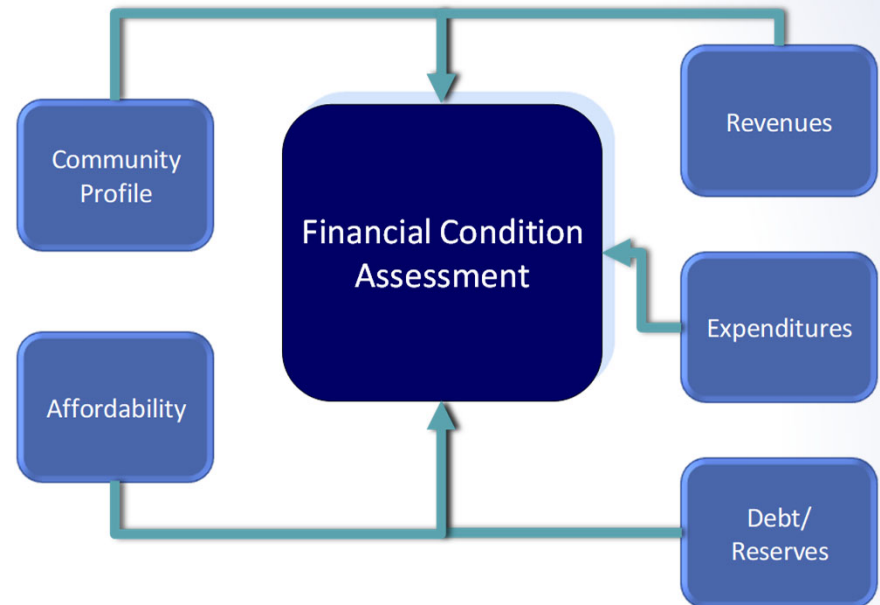
Vulnerability

Focuses on minimizing the level of risk that could impact its ability to meet financial obligations and commitments including the delivery of services.

Introduction – Financial Condition Assessment

Why undertake a financial condition assessment?

- Sound fiscal health is imperative to ensuring effective operations of the Municipality;
- Regular and timely financial condition assessments can provide early warning of potential fiscal problems;
- An assessment helps form the foundation for the establishment of a long range financial plan, strategic plans, business plans, financial policies and budget
- The graphic to the right provides a summary of the various indicators that were considered in the review process.



At the conclusion of each section, a performance dashboard has been included to summarize the results of the key metrics. The following provides the legend that was used to summarize the results.



Trend Analysis

The problems that create fiscal challenges seldom emerge overnight, rather they develop slowly, thus making potential problems less obvious. Analyzing the trends of the Municipality's key financial performance and socio-economic indicators offers several benefits including:

- Information on changes in the Municipality's financial health, revealing the most current trends;
- How quickly a trend is changing;
- Forms the basis for future forecasting; and
- Builds awareness and helps identify the potential need to modify existing policies or develop new strategies.

Financial Indicators must be continually monitored and regularly evaluated to help ensure decisions are fully informed and financially responsible.



Peer Analysis

Peer analysis has been included to gain a perspective of North Middlesex in relation to other municipalities

Municipality	Estimate 2019 Population	Land Area (sq. km.)	Population Density per sq. km.
Southgate	7,421	644	12
Grey Highlands	10,383	883	12
West Grey	12,612	876	14
South Bruce Peninsula	8,758	532	16
Brockton	9,862	565	17
Lambton Shores	11,047	331	33
Average	10,014	639	17
Median	10,123	605	15
North Middlesex	6,423	598	11

As illustrated above, North Middlesex has the lowest population density per square km. This will impact the cost of service as North Middlesex has a relatively small population in relation to a large land area.

Financial Condition Assessment - Key Indicators

Growth and Socio-Economic Indicators

Population
Density
Building Construction Activity
Property Assessment
Household Income

Municipal Levy, Property Taxes & Affordability Indicators

Municipal Levy
Comparison of Relative Taxes
Municipal Property Taxes as a % of Income
Water/Sewer Costs as a % of Income

Financial Position Indicators

Reserves & Reserve Funds
Debt
Municipal Financial Position
Taxes Receivable



Section 1: Growth and Socio-Economic Indicators

Growth and Socio-Economic Indicators

Monitoring the trends of socio-economic indicators often provide an “early warning” of future financial condition.

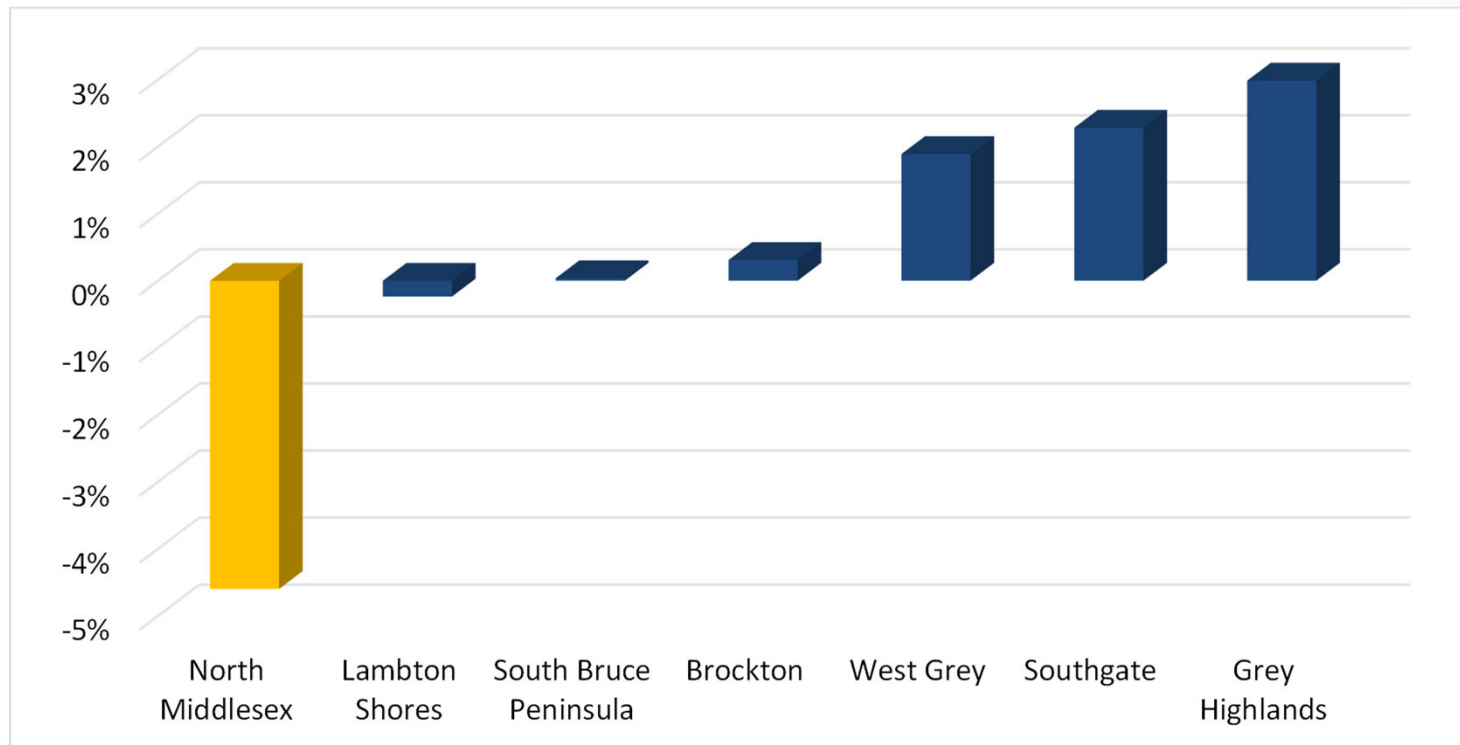


Growth and Socio-Economic Indicators

- Growth and socio-economic indicators provide insight into the community's collective ability to generate revenue relative to the community's demand for public services. As noted by Standard & Poor's bond rating agency, "demographic characteristics factor heavily into economic analysis".
- 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.



Population Change 2011-2016 (Stats Canada)



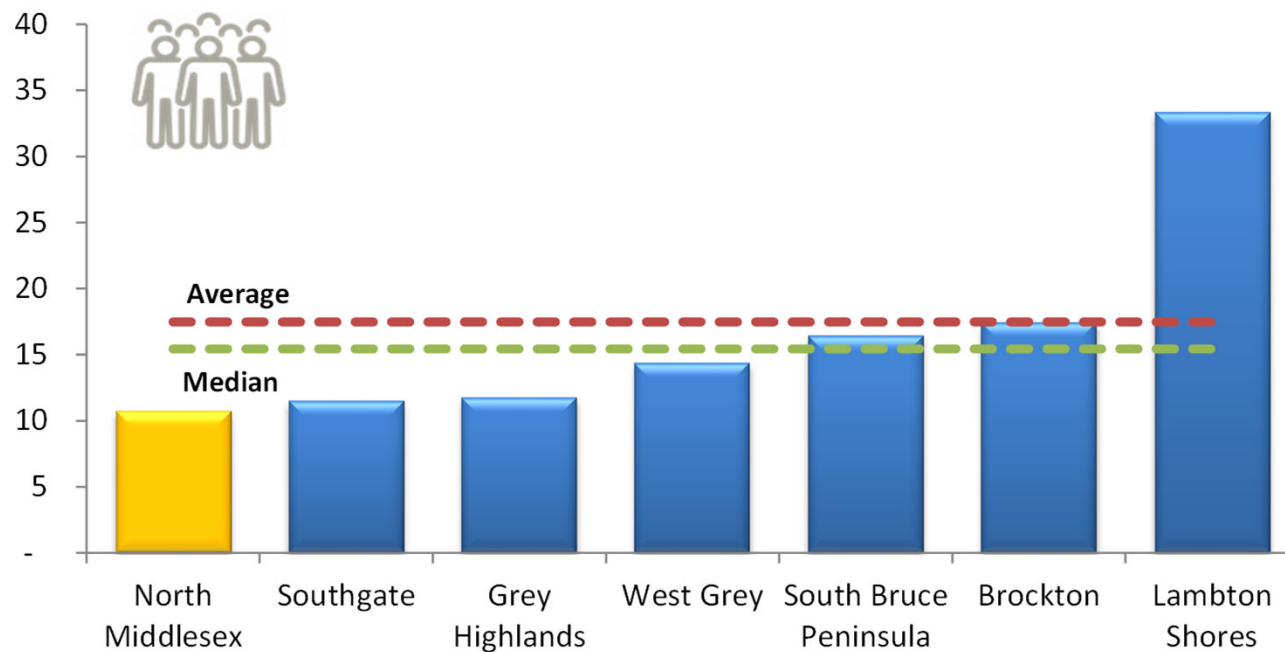
- As shown in the graph above, the population in North Middlesex declined from 2011-2016 from 6,658 to 6,352, a decline of 4.6%

Population Changes

Strong population growth drives the economic health of a municipality and creates an environment that supports business. The following summarizes key findings related to the Municipality's population growth:

- The absence of significant growth in the Municipality's population base poses a challenge from a financial sustainability perspective as the total number of taxpayers is not anticipated to increase at the same rate as the Municipality's operating and capital costs. Therefore, the total tax and ratepayer burden for the Municipality's residents will likely increase which may give rise to affordability concerns.
- While the majority of growth related capital expenditures are funded through development charges, there are mandatory exemptions not eligible under the Development Charges Act. In addition, the calculated DCs were discounted by 50%. These exemptions and discounts must be funded from taxes and/or water/sewer rates. Funding new infrastructure and increased operating expenditures to maintain the system places additional pressure on the tax and rate base. To reduce the impact to existing taxpayers/ratepayers, the Municipality may wish to consider eliminating the development charge discounts.

Population Density per Km²



- Population density indicates the number of residents living in an area (usually measured per square kilometre).
- North Middlesex has the lowest population density per km²
- A challenge facing North Middlesex is a large geographic area with low population density. The per capita costs for geographically based services can be significantly higher than more densely populated areas.

Age Demographics

The age profile of a population has an impact on spending plans, especially around the type and level of service required. The needs of residents shift over the course of their lives.

An analysis was undertaken of the 5 year trend in North Middlesex in relation to the Ontario average.

- The fastest growing cohort is residents aged 65+, reflecting the entry of many “baby boomers” into those years.
- In the Municipality of North Middlesex, the number of residents that are age 65+ has increased 12.7% over the 5 year period, compared with the Ontario average increase of 18.3%.
- Conversely, the number of residents age 0-19 has declined by 13.8% compared with a reduction of 2.2% across Ontario. The working age population 20-64 has decreased in North Middlesex compared to an increase in the Ontario average.

Age Profile	North Middlesex			Ontario		
	2011	2016	% change	2011	2016	% change
Age 0-19	1,840	1,585	-13.8%	3,167,813	3,096,780	-2.2%
Age 20-44	1,810	1,731	-4.4%	4,410,879	4,458,936	1.1%
Age 45-64	1,965	1,861	-5.3%	3,836,128	3,927,160	2.4%
Age 65+	1,043	1,175	12.7%	1,951,480	2,309,176	18.3%
Total	6,658	6,352		13,366,300	13,792,052	

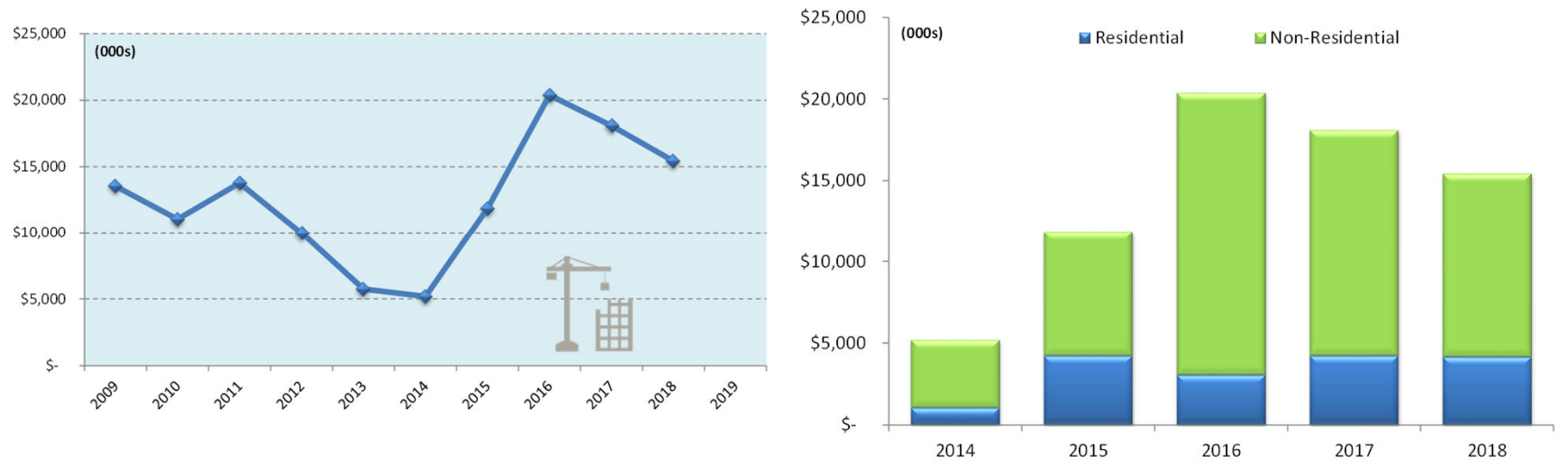
Age Demographics % of Total Population

Age Profile	North Middlesex		Ontario	
	2011	2016	2011	2016
Age 0-19	27.6%	25.0%	23.7%	22.5%
Age 20-44	27.2%	27.2%	33.0%	32.3%
Age 45-64	29.5%	29.3%	28.7%	28.5%
Age 65+	15.7%	18.5%	14.6%	16.7%
Total	100.0%	100.0%	100.0%	100.0%

- North Middlesex has a higher proportion of residents aged 65+ than the Ontario average and a lower proportion of working age population.
- Also North Middlesex has a higher percentage of population ages 0-19, but as shown previously has been declining over the past 5 years.
- It is important to be aware of the issues around low population growth combined with an aging population.



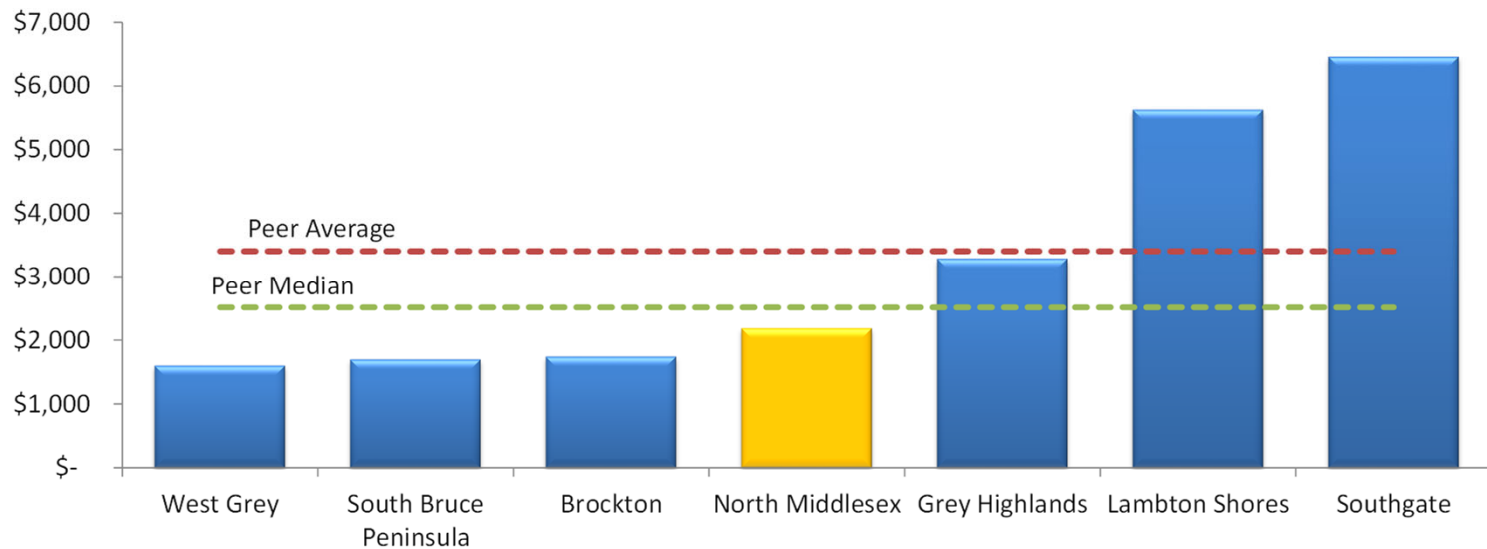
Building Construction Activity



- Construction activity has been trending up from 2014-2016 after several years of downward trends. Construction activity has decreased in 2017 and 2018.
- The ideal condition is to have sufficient commercial and industrial development to offset the net increase in operating costs associated with residential development.
- Over the past five years, residential/non-residential construction activity (on a \$ of construction) is a 24/76 split in the Municipality of North Middlesex, representing a higher growth in the non-residential sectors. This will help grow the assessment base with additional non-residential construction.

Construction Per Capita 5 Year Average (2014-2018)

- Building permit value per capita is used as an indicator of the relative construction activity within each peer municipality. The five year average building permit value per capita from 2014 to 2018 in North Middlesex is slightly below the survey of peer municipalities.



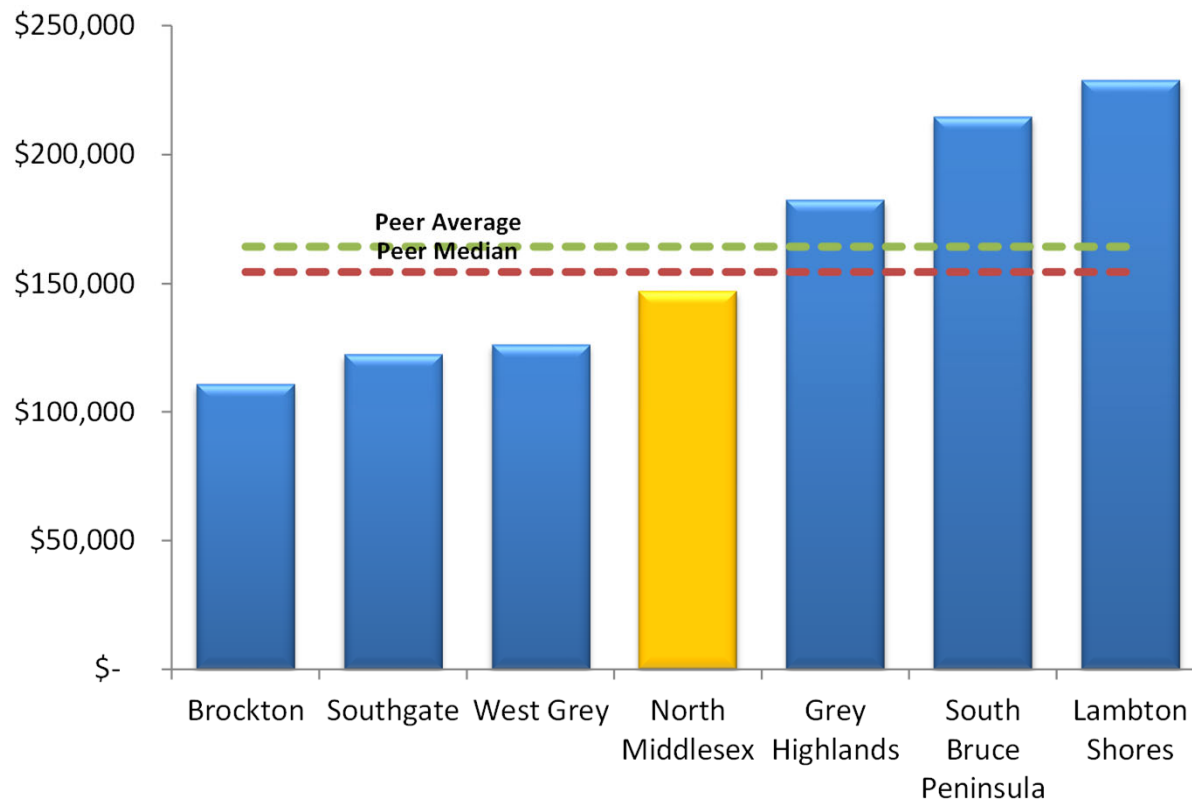
Weighted Assessment Composition

2019 Weighted Assessment	Residential	Multi-Res.	Commercial	Industrial	Pipelines	Farmlands	Forests
Southgate	77.8%	0.5%	2.7%	4.9%	0.1%	13.9%	0.2%
Grey Highlands	82.7%	0.4%	3.6%	5.3%	0.1%	7.5%	0.4%
West Grey	81.2%	0.8%	4.5%	2.3%	0.5%	10.0%	0.7%
South Bruce Peninsula	91.7%	0.5%	5.0%	0.9%	0.2%	1.6%	0.1%
Brockton	73.7%	2.5%	9.1%	1.5%	0.2%	12.8%	0.1%
Lambton Shores	80.8%	1.3%	9.9%	1.6%	0.4%	5.9%	0.0%
Average	81.3%	1.0%	5.8%	2.7%	0.2%	8.6%	0.3%
Median	81.0%	0.6%	4.8%	2.0%	0.2%	8.7%	0.2%
North Middlesex	57.1%	1.1%	3.8%	2.4%	1.4%	34.0%	0.2%

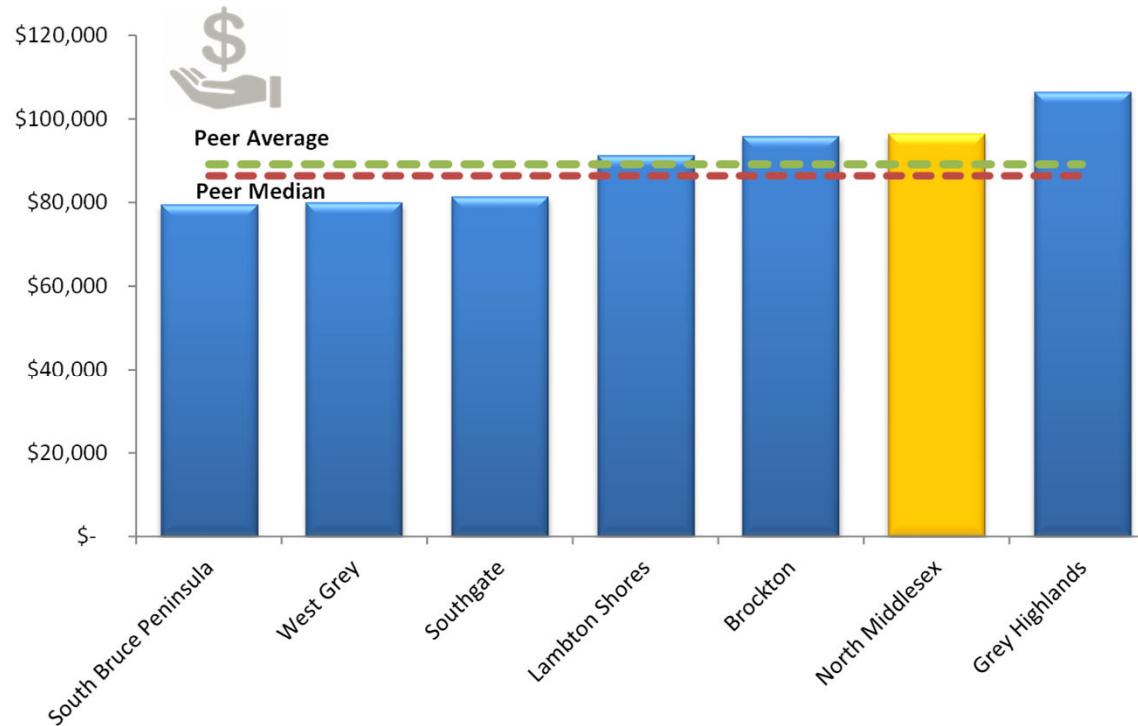
- Monitoring assessment is important because taxation is the largest source of revenues to support Municipal programs, services and the replacement of assets. A strong assessment base provides a stable long-term funding source.
- It is more desirable to have a larger share of non-residential assessment as the municipal cost of service is generally lower than residential. In comparison to the peer municipalities, North Middlesex has a lower non-residential assessment base upon which to raise taxes and a larger proportion of farmland which is taxed at 25% of the residential rate. This may pose a challenge for the Municipality in supporting programs and services as increased costs are largely borne by the residential and farm classes.

Assessment Per Capita (Richness of Assessment Base - 2019)

- **Richness of Assessment Base:** Assessment on a per capita has been used to compare the “richness” of the assessment base. A strong assessment base is critical to a municipality’s ability to raise revenues. Weighted assessment reflects the basis upon which property taxes are levied after applying the tax ratios to the unweighted assessment. North Middlesex’s weighted assessment per capita is slightly below the average of the peer municipal comparison, due largely to the extent of farmland assessment and a lower proportion of commercial and industrial assessment.

















2019 Gross Household Income



- Household income is one measure of a community's ability to pay for municipal services.
- Average household income in the Municipality of North Middlesex is estimated at \$96,495 which is higher than the peer municipal average (\$89,100).

Socio-Economic Summary

	<i>Socio-Economic Indicator</i>	<i>Observations</i>	<i>2020 Rating</i>
	Population Growth	The absence of significant growth in the Municipality's population base poses a challenge from a financial sustainability perspective as the total number of taxpayers is not anticipated to increase at the same rate as the Municipality's operating and capital costs.	
	Population Density	Amongst the lowest population density in the peer municipal survey. This requires more linear infrastructure funded by fewer people.	
	Age Demographics	North Middlesex has a higher proportion of residents aged 65+ than the Ontario average and a lower proportion of working age population.	
	Construction Activity	Ideal condition is to have sufficient commercial and industrial development to offset the net increase in operating costs associated with residential development. North Middlesex has a good balance of construction and experienced an increase since 2014 but slightly lower than the peer average on a per capita basis.	
	Assessment Composition	Lower than peer municipality non-residential assessment and higher farm assessment making it more difficult to increase taxes.	
	Richness of the Assessment Base	Assessment per capita, which is an indicator of the richness of the assessment base reflects a lower than average assessment base upon which to raise taxes in North Middlesex. The Municipality has below average assessment base per capita, primarily driven by a larger proportion of farmland property which is discounted.	
	Household Income	Household income is above to the survey peer average as well as the Provincial average which helps support affordability.	

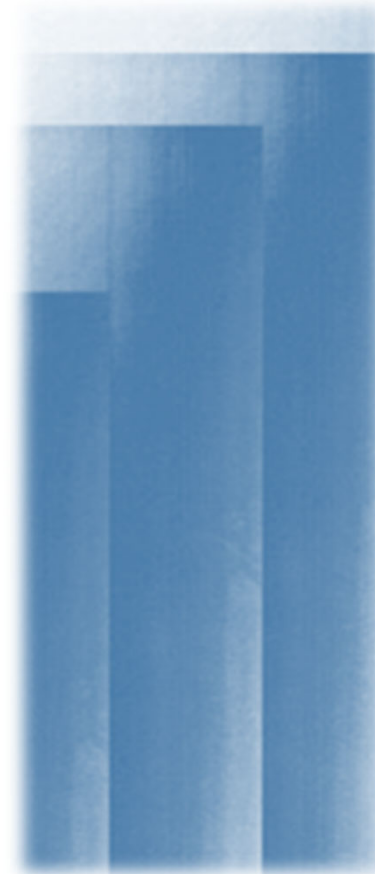


Section 2: Municipal Levy, Property Taxes and Affordability

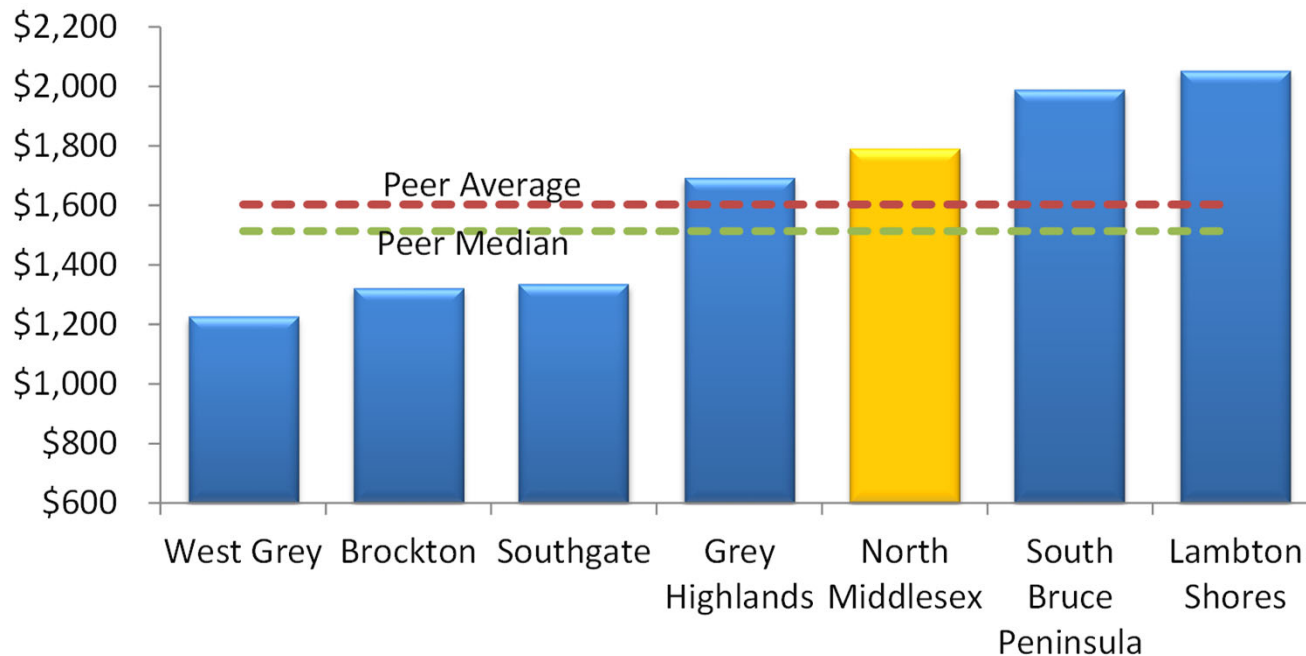
Municipal Levy

In order to better understand the relative municipal tax position for the Municipality, a comparison of net municipal levies was calculated based on a per \$100,000 of assessment as well as on a per capita levy basis. 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.

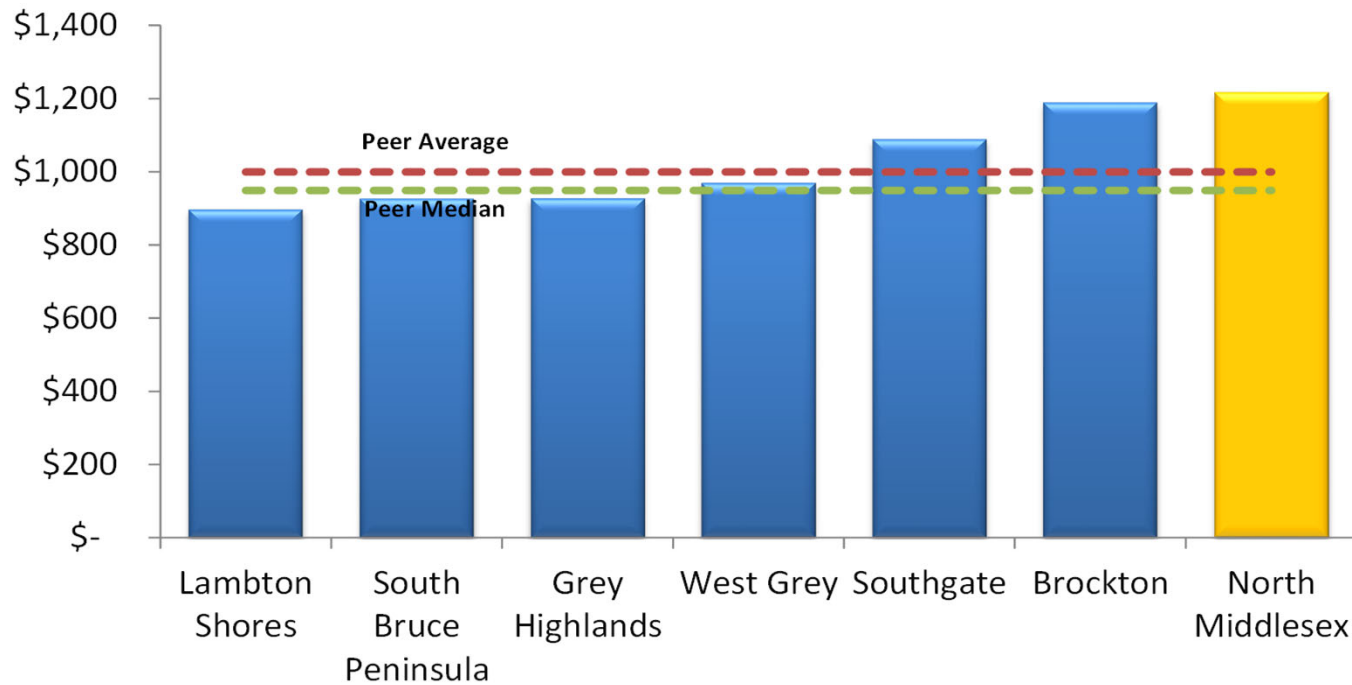


2019 Levy Per Capita Analysis



- **Note:** includes upper and lower tier taxes
- The Municipality of North Middlesex has a slightly higher than average municipal spending on a per capita basis. This is mainly a result of a low population relative to a large land area which increases costs to provide linear infrastructure services e.g. roads.
- The County represents 32% of the total municipal levy.

2019 Levy Per \$100,000 of Weighted Assessment









- A comparison of the 2019 levy per \$100,000 of weighted assessment provides an indication of the levy in relation to the assessment base upon which taxes are raised.
- The Municipality of North Middlesex's levy per \$100,000 of assessment is highest in the survey. This is due in part to a relatively low assessment base.

Affordability Analysis

Municipality	2019 Median Value of Dwelling	2019 Total Taxes on an Average Dwelling Value	2019 Water/WW Costs Residential per 200 m3	2019 Estimated Average Household Income	Property Taxes as a % of Income	Water/WW as a % of Income
Southgate	\$ 252,102	\$ 3,159	\$ 1,551	\$ 81,498	3.9%	1.9%
Grey Highlands	\$ 300,016	\$ 3,265	\$ 1,258	\$ 106,519	3.1%	1.2%
West Grey	\$ 247,703	\$ 2,807	\$ 1,449	\$ 80,032	3.5%	1.8%
South Bruce Peninsula	\$ 259,196	\$ 2,835	\$ 1,676	\$ 79,532	3.6%	2.1%
Brockton	\$ 224,993	\$ 3,073	\$ 972	\$ 95,933	3.2%	1.0%
Lambton Shores	\$ 308,159	\$ 3,393	\$ 1,491	\$ 91,339	3.7%	1.6%
Peer Average	\$ 265,361	\$ 3,089	\$ 1,400	\$ 89,142	3.5%	1.6%
Median	\$ 255,649	\$ 3,116	\$ 1,470	\$ 86,418	3.5%	1.7%
North Middlesex	\$ 226,122	\$ 3,116	\$ 1,218	\$ 96,495	3.2%	1.3%

- The median dwelling CVA in North Middlesex is lower than the peer median. Property taxes based on a median dwelling value as a percentage of average household income in North Middlesex (3.2%) is below the survey average (3.5%) because of the relatively high household income.
- Water and sewer costs in North Middlesex as a percentage of average household income (1.3%) are also below than the peer average (1.6%), however, there is a large infrastructure gap that will potentially require a significant increase in water and sewer rates.
- Overall the total municipal burden as a percentage of household income is below the peer average.

Municipal Levy and Affordability Indicators

	<i>Indicator</i>	<i>Observations</i>	<i>2020 Rating</i>
	<i>Municipal Levy Per Capita</i>	Municipal Levy is higher than the peer survey average. This includes the upper and lower tier levy.	
	<i>Municipal Levy Per \$100,000 of Weighted Assessment</i>	Municipal Levy is higher than the peer survey average on a per \$100,000 of assessment. This includes the upper and lower tier levy.	
	<i>Residential Affordability</i>	In comparison of property taxes on a median dwelling in relation to income (affordability indicator) North Middlesex's affordability indicator is below the survey average.	





Section 3: Financial Position

Financial Position

Industry recognized indicators that are used by credit rating agencies and/or recommended by Government Finance Officer's Association (GFOA) and the Ministry of Municipal Affairs and Housing Canadian Institute of Chartered Accountants (CICA) defined financial condition of a municipality's financial health as:

Sustainability

- **Financial Position per capita** of a municipality is important to consider as this takes into consideration the municipality's total financial assets and liabilities.

Vulnerability

- **Taxes Receivable as a percentage of Taxes Levied** is an indicator of the economic health of the community.

Flexibility

- **Reserves/Reserve Funds** are established by Council to assist with long term financial stability and financial planning. Credit rating agencies consider municipalities with higher reserves more advanced in their financial planning.
- **Debt** is an important indicator of the municipality's financial health. Debt is an appropriate way of financing longer life items, especially new assets or new corporate initiatives that are not fully recovered through DCs since future taxpayers, that receive the benefit, will also pay through future debt charges. However, when debt levels get too high, it compromises the municipality's flexibility to fund programs and services.

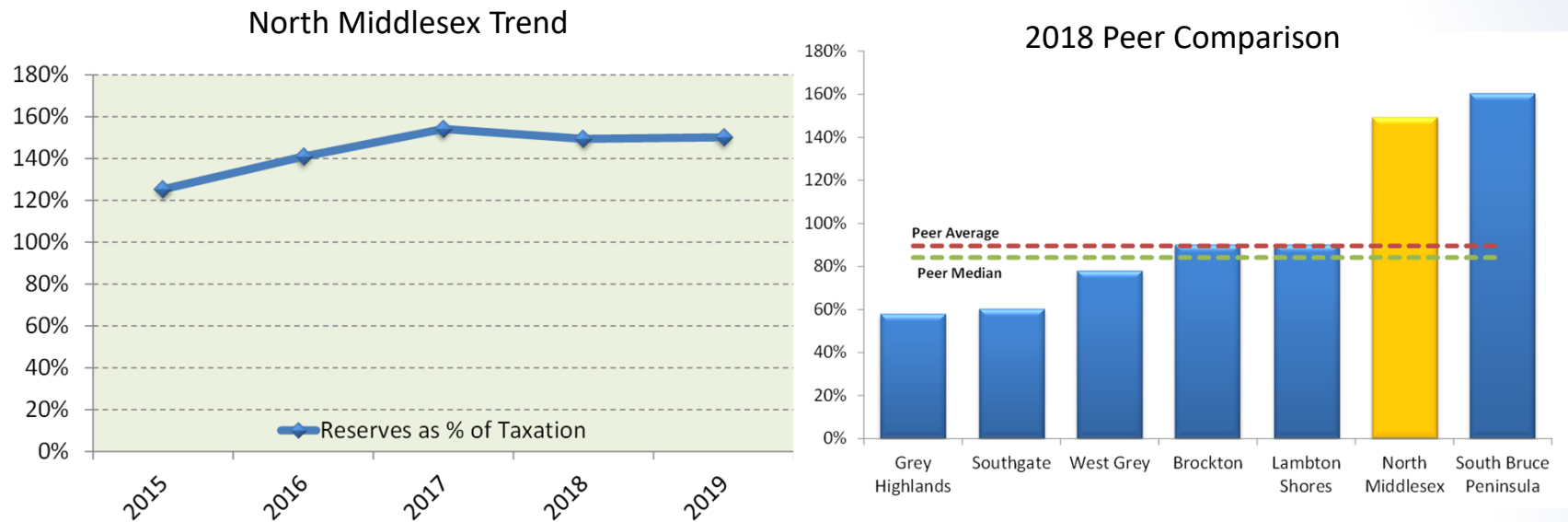
Introduction to Reserves and Reserve Funds

Maintaining sufficient reserves and reserve funds are a critical component of long-term financial planning. The purposes for maintaining reserves are:

- To provide 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 capital assets to sustain infrastructure;
- 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.



Tax Reserves as a % of Taxation – Peer Comparator



- The discretionary reserves/reserve funds as a percentage of taxation was evaluated, both the trends, as well as in relation to other peer municipalities. Note that this analysis excludes obligatory reserve funds (e.g. Development Charges).
- North Middlesex's tax discretionary reserves as a percentage of taxation are well above the group survey average and have been increasing since 2015.

Reserve and Reserve Funds

Summary Reserve and Reserve Funds						
Reserve & Reserve Fund Balances	2015	2016	2017	2018	2019	5 Year Change %
Capital Reserves	\$ 3,438,312	\$ 4,478,319	\$ 5,996,226	\$ 6,713,110	\$ 8,429,852	145%
Tax Stabilization Reserves	\$ 2,171,243	\$ 2,416,141	\$ 2,445,798	\$ 2,458,186	\$ 1,735,535	-20%
Special Purpose Reserves	\$ 506,301	\$ 831,335	\$ 1,410,461	\$ 1,289,914	\$ 1,609,607	218%
Total Tax Reserves/Reserve Funds	\$ 6,115,856	\$ 7,725,795	\$ 9,852,485	\$ 10,461,210	\$ 11,774,993	93%
Building Reserve Funds	\$ 477,179	\$ 480,573	\$ 480,573	\$ 480,573	\$ 588,106	23%
Water, Sewer, Storm Reserve	\$ 119,388	\$ 468,781	\$ 773,867	\$ 1,135,730	\$ 1,952,980	1536%
Total Reserves/Reserve Funds	\$ 6,712,423	\$ 8,675,150	\$ 11,106,925	\$ 12,077,513	\$ 14,316,079	113%

- Capital Reserves Funds have increased 145% (\$5.0 million) since 2015, from \$3.4 million in 2015 to \$8.4 million in 2019.
- Stabilization Reserves have declined by 20%, from a balance of \$2.2 million in 2015 to \$1.7 million in 2019.
- Special Purpose Reserve have increased 218% since 2015, from \$506,300 in 2015 to \$1.6 million in 2019.
- Building Reserve Funds are segregated for use only for Building related programs and capital requirements. The balance in these reserves have increased 23% from 2015, from \$477,200 in 2015 to \$588,100 in 2019.
- Water, Sewer and Storm reserves have increased significantly to support capital replacement, with a consolidated balance of \$1.95 million in 2019. However, there are significant future capital requirements.
- Total Reserve and Reserve Funds have increased 113% since 2015, with a 2019 year end balance of \$14.3 million, an increase of \$7.6 million.

Capital Reserves – Trends and Observations

Reserve and Reserve Funds							5 Year Change %
Reserve & Reserve Fund Balances	2015	2016	2017	2018	2019		
Capital Reserves							
Contingency	\$ 1,941,597	\$ 2,145,719	\$ 3,651,143	\$ 4,242,907	\$ 3,960,632	100% +++	
Fire Equipment	\$ 525,034	\$ 650,743	\$ 776,407	\$ 882,507	\$ 1,040,007	98%	
Asset Replacement	\$ -	\$ 200,000	\$ 172,925	\$ 172,925	\$ 172,925	0%	
Fire Building	\$ 83,500	\$ 133,500	\$ 150,157	\$ 279,657	\$ 472,157	100% +++	
Bridge Reserve	\$ 521,654	\$ 531,293	\$ 328,869	\$ 328,869	\$ 595,101	14%	
Recreation Equipment	\$ 19,805	\$ 6,883	\$ 60,488	\$ 89,388	\$ 119,188	100% +++	
Roads Equipment	\$ 30,741	\$ 302,241	\$ 428,844	\$ 280,922	\$ 598,422	100% +++	
Accessibility	\$ 121,044	\$ 121,044	\$ 146,044	\$ 166,558	\$ 166,558	38%	
Office Equipment	\$ 24,193	\$ 19,896	\$ 10,643	\$ (1,329)	\$ 22,571	-7%	
Municipal Drains	\$ 157,000	\$ 157,000	\$ 157,000	\$ 157,000	\$ 423,232	100% +++	
Street Light Pole Reserve	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	0%	
Rec facilities	\$ 3,744	\$ -	\$ 67	\$ 67	\$ 67	-98%	
Capital Project Reserve	\$ -	\$ 200,000	\$ 103,640	\$ 103,640	\$ 848,992	0%	
Total Capital Reserves	\$ 3,438,312	\$ 4,478,319	\$ 5,996,226	\$ 6,713,110	\$ 8,429,852	100% +++	

- **Capital Reserves** are used to assist in financing the capital program. They provide flexibility and liquidity as well as enhancing the Municipality's capacity to handle current and future capital infrastructure needs. Capital assets must be supported by contributions to Reserves to address their eventual rehabilitation and/or replacement. There are currently 13 Capital Reserves to support tax supported capital replacement/refurbishment of the Municipality's assets.
- The definitions for all capital reserves are not clear and there appears to be some overlap on the purpose of the reserves. Consolidation of some/all Capital reserves is recommended to improve flexibility. For example, Asset Management, Capital Project Reserve, Contingency are all available for Capital Replacement of any tax related capital assets.

Asset Management Plan 2016 Excerpts

The total value of the Municipality's infrastructure at approximately \$267 million.

- ***\$134.4 million of assets in Very Poor Condition***
 - \$119.6 million of these assets are bridges which have extended past the end of their estimated service life and have substantial replacement costs.

The analysis identifies an ***annual infrastructure capital expenditure need*** of approximately \$8.7 million at the level of service stated in this report including existing backlog of required expenditure needs.

Asset Category	Replacement Value
Transportation - Bridges	\$ 137.17
Transportation - Culverts	\$ 9.85
Transportation - Roads (Paved)	\$ 24.61
Transportation - Roads (Unpaved)	\$ 6.56
Water Distribution	\$ 23.54
Storm Sewer	\$ 9.63
Sanitary Sewer	\$ 15.42
Buildings and Facilities	\$ 28.94
Lands and Land Improvements	\$ 3.42
Machinery and Equipment	\$ 4.99
Vehicles	\$ 2.88
Other	\$ 0.03
Total	\$267.04

Asset Inventory (2016) – Blue Plan

Asset Category	Includes items such as...	Inventory
Transportation - Bridges	All bridge structures	35 bridges
Transportation - Culverts	All culvert structures	40 culverts
Transportation - Roads (Paved)	Paved roads	98 km
Transportation - Roads (Unpaved)	Gravel roads	369 km
Water Distribution	Watermains	467 km
Storm Sewer	Storm sewer mains	23 km
Sanitary Sewer	Sanitary sewer mains	22 km
Buildings and Facilities	All buildings and facilities	59 building and facility assets
Lands and Land Improvements	All lands in use	65 land and land improvement assets
Machinery and Equipment	Street lights, light/heavy equipment, fire equipment, fences, etc.	68 machinery and equipment assets
Vehicles	All vehicles and fleet assets	23 vehicle assets
Other	Firewalls, TVs, cameras	2 assets

- The above noted table represents the asset inventories as of 2016, reflecting a significant portfolio of assets, supported by a relatively low population base.

Asset Management Plan Policy (Excerpts)

The asset management plans (AMPs) and progress made on the plans will be considered annually in the development of the Municipality's capital budgets, operating budgets, and long-term financial plans.

- Service area personnel will reference the asset management plan for their area in order to look up forecasted spending needs identified in the plan, verify progress made on the plan to identify potential gaps, and prioritize spending needs, across the gap identified in the plan and recent developments, for the year to be budgeted for.
- Asset management planning will be aligned with the Municipality's Official Plan. The asset management plans will reflect how the community is projected to change and the related asset impact.
- Climate change will be considered as part of the Municipality's risk management approach embedded in local asset management planning methods. This approach will balance the potential cost of vulnerabilities to climate change impact and other risks with the cost of reducing these vulnerabilities.
- The balance will be struck in the levels of service delivered through operations, maintenance schedules, disaster response plans, contingency funding, and capital investments.
- The Municipality recognizes the need for stakeholder input into the planning process and will foster informed dialogue using the best available information.

Capital Reserve Recommendations

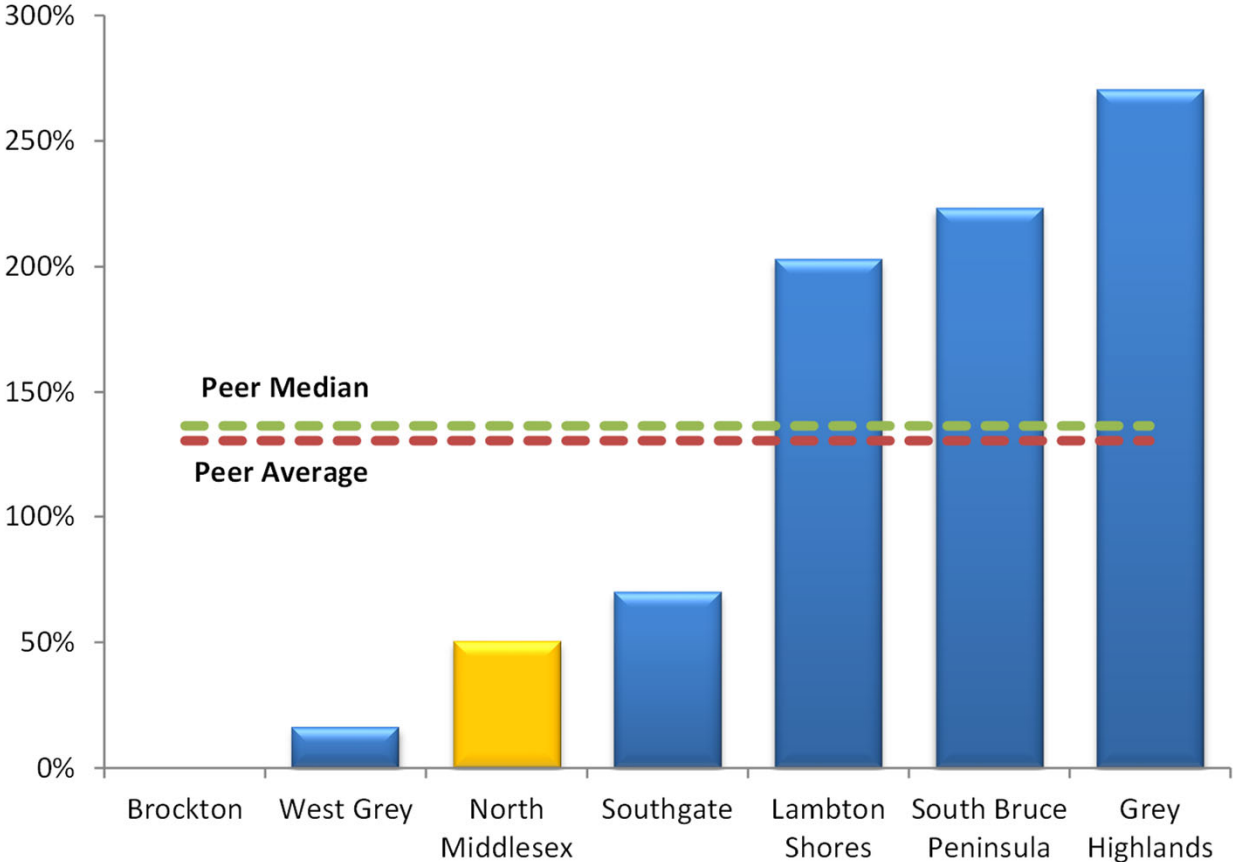
1. Maintain a minimum threshold cash balance in the consolidated Capital Reserve for replacement to help ensure capital reserves are available for emergency purposes.
2. With limited financial resources and competing priorities, Capital Reserves should be managed, on a consolidated basis, for effective management of the capital financing program. This would help provide additional financial flexibility to help ensure that the Municipality's most critical needs from a risk management perspective would continue to be addressed.
3. All infrastructure and assets will be subject to a cost benefit analysis that considers lifecycle costing, ongoing operating costs to manage the newly acquired/constructed assets. The Operating Budget will provide sufficient funding for adequate maintenance and timely replacement of capital assets.
4. Gradually increase contributions to capital reserves in accordance with the AMP.

Water/Sewer/Storm Capital Reserves

Reserve and Reserve Funds							
Reserve & Reserve Fund Balances	2015	2016	2017	2018	2019	5 Year Change %	
Water, Sewer and Storm Reserves							
Water Department Reserves	\$ -	\$ 331,077	\$ -	\$ -	\$ -	0%	
Water & Sewer Equipment	\$ 42,548	\$ 60,865	\$ 427,219	\$ 789,082	\$ 1,406,332	100% +++	
San & Storm Sewers	\$ 76,839	\$ 76,839	\$ 346,648	\$ 346,648	\$ 546,648	100% +++	
Total Water, WW Storm Reserves	\$ 119,388	\$ 468,781	\$ 773,867	\$ 1,135,730	\$ 1,952,980	100% +++	

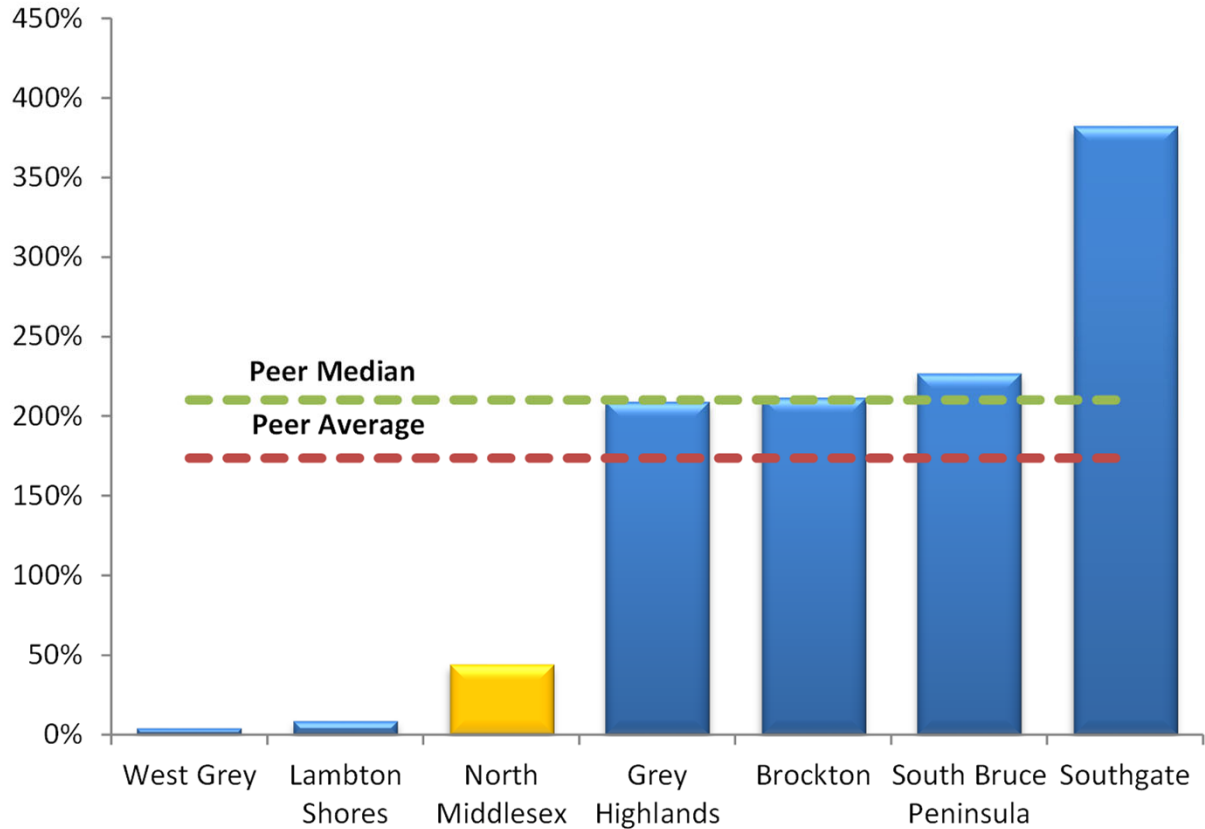
- The Municipality has separate reserves to support water, sewer/storm capital requirements.
- Over the past several years, the reserves have been increasing through planned contributions to the reserves.
- This is required as they are significant assets that will require replacement as well as system expansion.

Water Reserves as a % of Own Source Revenues



- The water reserves as a % of water own source revenues are below the peer average.

Sewer Reserves as a % of Own Source Revenues



- Sewer reserves as a % of sewer own source revenues are below above the peer average.

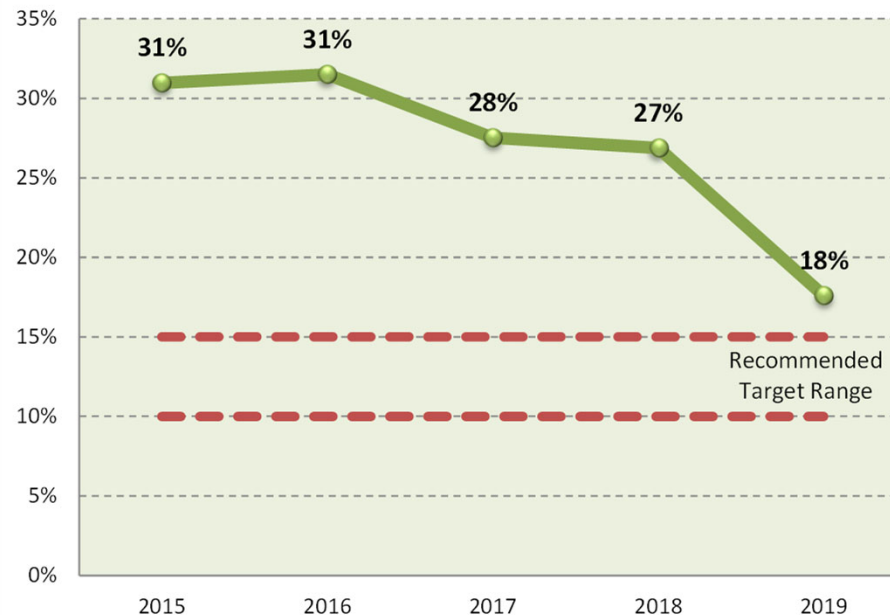
Tax Stabilization Reserves

Reserve and Reserve Funds						
Reserve & Reserve Fund Balances	2015	2016	2017	2018	2019	5 Year Change %
Tax Stabilization Reserves						
Tax Rate Stabilization	\$ -	\$ 150,658	\$ 180,315	\$ 209,973	\$ 209,973	0%
Working capital	\$ 2,171,243	\$ 2,226,243	\$ 2,226,243	\$ 2,208,972	\$ 1,386,321	-36%
Extreme Weather Reserve	\$ -	\$ -	\$ -	\$ -	\$ 100,000	0%
Benefit Stabilization Reserve	\$ -	\$ 39,241	\$ 39,241	\$ 39,241	\$ 39,241	0%
Total Stabilization Reserves	\$ 2,171,243	\$ 2,416,141	\$ 2,445,798	\$ 2,458,186	\$ 1,735,535	-20%

- Unstable or unpredictable tax levies can adversely affect residents and businesses within the Municipality. In order to maintain stable and predictable levies, the Municipality has established stabilization reserves to manage the impact of unusual or unplanned cost increases or revenue reductions.
- Reductions were experienced in these reserves, on a consolidated basis by 20%.
- There is no budgeted contribution to these reserves. Decisions are made at year end if surpluses are experienced whereby a report is brought forward to Council to determine the most appropriate allocation if surplus funds.

Leading Practices – Stabilization Reserves

- A prudent level of Stabilization Reserves/Reserve Funds is maintained to protect against reducing service levels or raising taxes because of temporary revenue shortfalls or unanticipated expenditures.
- The use of Stabilization Reserves/Reserve Funds is restricted to extraordinary or unforeseen events and not used to balance Operating Budgets.
- Minimum balances, ceilings and targets are established, where appropriate, to provide a guideline for Stabilization Reserve balances.
- Credit rating agencies consider 10%-15% of Stabilization Reserves as a percentage of Own Source Revenues as good.
- On a consolidated basis, the Stabilization Reserves as a percentage of Own Source Revenues are well above the target range.



Program Specific Reserves/Reserve Funds

Reserve and Reserve Funds							5 Year Change %
Reserve & Reserve Fund Balances	2015	2016	2017	2018	2019		
Program Specific Reserves							
Canada Day	\$ 9,313	\$ 9,313	\$ 9,313	\$ 9,313	\$ 9,994	7%	
Municipal Election	\$ 5,000	\$ 10,000	\$ 15,000	\$ 25,000	\$ 30,000	100% +++	
Hydro Proceeds	\$ 165,226	\$ 78,251	\$ 82,299	\$ 62,299	\$ 23,791	-86%	
Insurance Reserve	\$ -	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	0%	
CBO Reserves	\$ 15,457	\$ 15,457	\$ 115,457	\$ 82,276	\$ 82,276	100% +++	
Emergency Preparedness	\$ -	\$ 100,000	\$ 200,000	\$ 200,000	\$ 200,000	0%	
Policing	\$ 200,506	\$ 200,506	\$ 200,506	\$ 200,506	\$ 200,506	0%	
Green Initiatives Reserve	\$ -	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	0%	
Fire Training	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	0%	
Community Vibrancy Fund	\$ 96,468	\$ 203,524	\$ 473,290	\$ 352,660	\$ 744,700	100% +++	
Meadowgate Rd	\$ 4,430	\$ 4,383	\$ 4,472	\$ 4,472	\$ 4,472	1%	
Economic Develop	\$ -	\$ -	\$ 100,000	\$ 143,265	\$ 100,000	0%	
Santa Claus parade	\$ 5,901	\$ 5,901	\$ 6,124	\$ 6,124	\$ 9,867	67%	
Total Program Specific Reserve	\$ 506,301	\$ 831,335	\$ 1,410,461	\$ 1,289,914	\$ 1,609,607	100% +++	

- Program Specific Reserves/Reserve Funds are set aside for specific purposes. These reserves and reserve funds are restricted funds only 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.
- There has been a significant increase in Program Specific Reserves/Reserve Funds. This is primarily related to the increase in the Community Vibrancy Fund.

Program Specific Reserves/Reserve Funds

- **Community Vibrancy Fund Policy** - The Municipality of North Middlesex and Bornish Wind GP, Inc. signed the Community Vibrancy Agreement in October 2013. As a result of the agreement, Bornish Wind will pay an amenity fee, otherwise known as the Community Vibrancy Fund, over a term of 20 years. The Fund has an associated policy for specific uses as shown in the table below:

Program	Available Fund
Community Development Fund Program	\$50,000
SMGH Foundation Program	\$40,000
Façade Grant Program	\$15,000
Endowment Fund Program	\$25,000
Annual Tax Mitigation Fund Program	\$125,000

Debt Management - Introduction

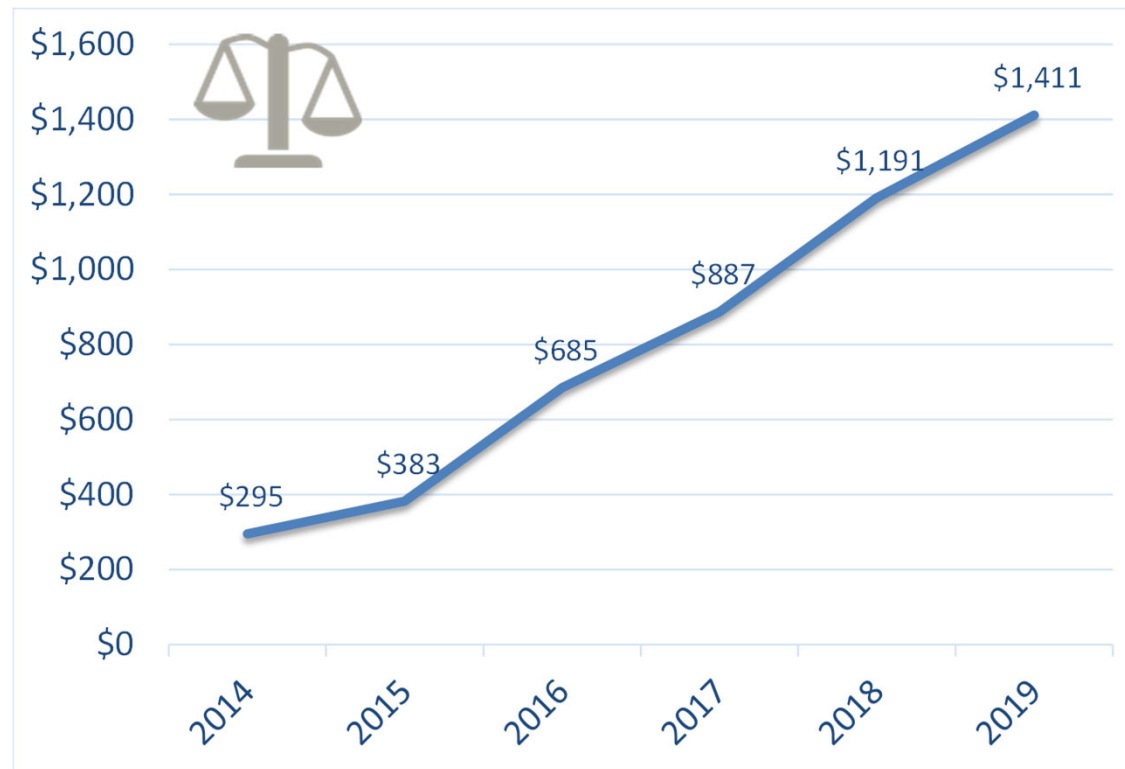
- Municipalities have limited options with respect to raising funds to support municipal programs and services. Debt used strategically is a useful way to pay for capital expenditures. The Municipality of North Middlesex is not unique, as virtually all municipalities across Ontario are facing increasing infrastructure backlogs, funding gaps, and increasing financial pressures in infrastructure management.
- Debt is frequently issued and considered a standard practice in municipalities for new capital projects that are long term in nature that benefit future taxpayers, thereby spreading the costs across future years. Under the most favourable circumstances, the Municipality's debt should be proportionate in size and growth to the Municipality's tax and rate base; should not extend past the useful life of the facilities which it finances; should not require repayment schedules that put excessive burdens on operating expenditures and should not be so high as to jeopardize credit ratings.
- It is recommended that a Council approved debt policy be established, in accordance with leading practices.

Debt Indicators

Municipality	2018 Tax Debt Charges as % of Own Source Revenue	2018 Tax Debt Outstanding per Capita	Debt to Reserve Ratio
Southgate	3.1%	\$ 259	0.3
Grey Highlands	5.3%	\$ 277	0.4
West Grey	0.2%	\$ 1	0.1
South Bruce Peninsula	2.3%	\$ -	0.0
Brockton	7.2%	\$ 588	0.7
Lambton Shores	10.3%	\$ 628	0.5
Average	4.7%	\$ 292	0.3
Median	4.2%	\$ 268	0.3
North Middlesex	3.6%	\$ 137	0.1

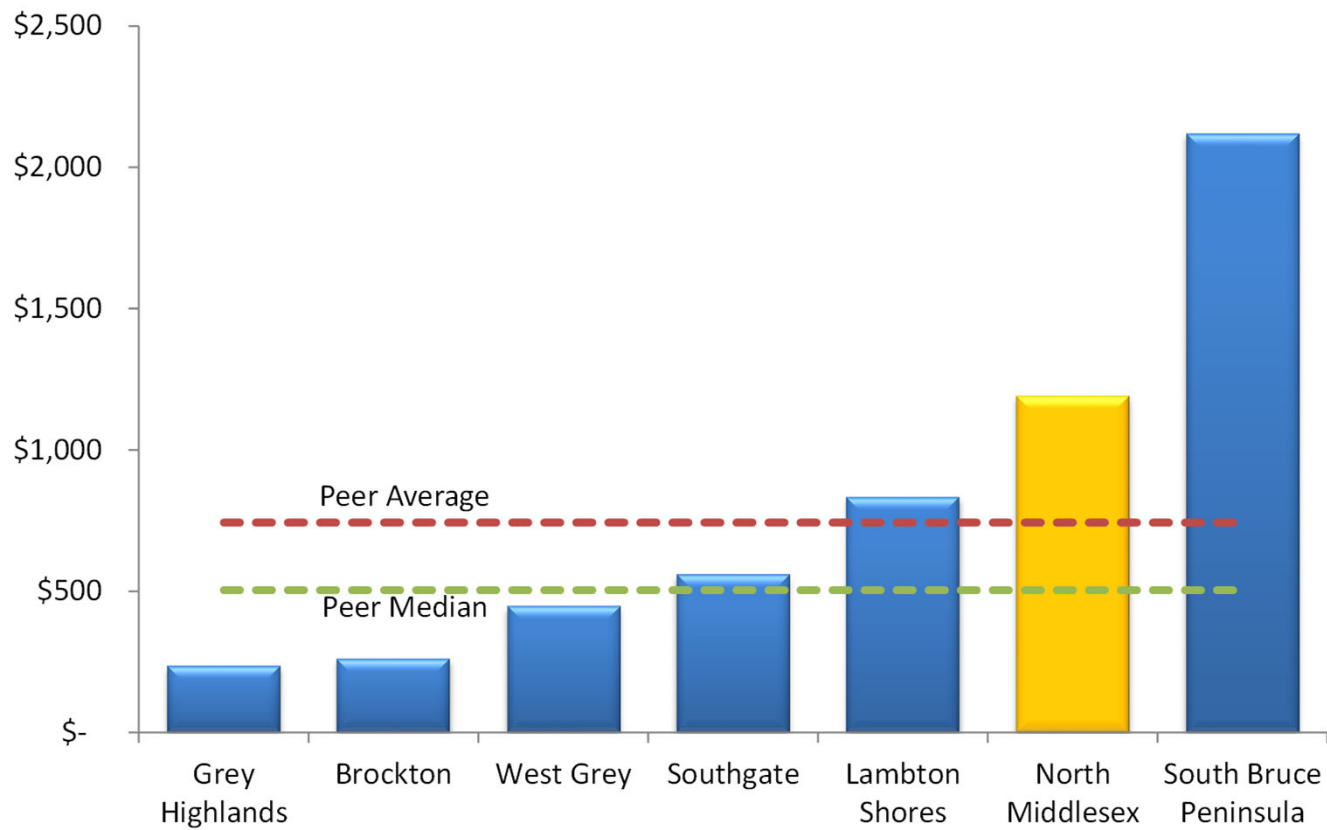
- Tax debt charges as a percentage of own source revenues are below the peer average as is the tax debt outstanding and debt to reserve ratio.
- A debt to reserve ratio of 1:1 is the debt to reserve ratio recommended by credit rating agencies.
- The Municipality's ratio is below the suggested target of 1.0 which is a positive indicator. For every dollar of reserves, the Municipality has only \$0.10 of debt.
- North Middlesex does not currently have a debt policy beyond that which is mandated by the Province.

Financial Position Per Capita



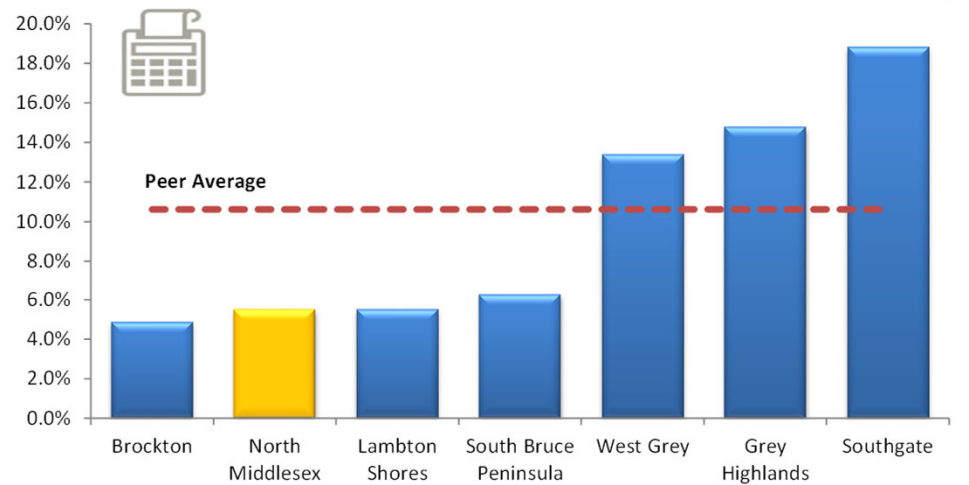
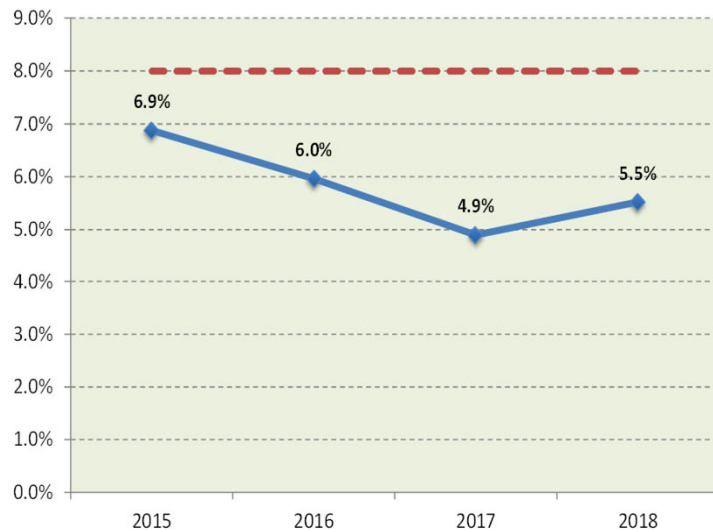
- A municipality's financial position is defined as the total fund balances including equity in business government enterprises less the amount to be recovered in future years associated with long term liabilities. A trend analysis was undertaken of the Municipality's overall financial position (financial assets less liabilities) from 2014 to 2019.
- On a per capita basis, the Municipality's financial position increased from \$295 in 2014 to \$1,411 in 2019.

Financial Position Per Capita Comparison (2018)



















- North Middlesex's financial position per capita is second highest in the peer group, reflecting a positive financial position.

Taxes Receivable as % of Taxes Levied



- 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. North Middlesex is well below the range considered to be acceptable.
- In comparison to other municipalities surveyed, taxes receivable in North Middlesex is well below the survey average.

Financial Indicator Summary

	<i>Financial Indicator</i>	<i>Observations</i>	<i>2020 Rating</i>
	<i>Tax Discretionary Reserves as a % of Taxation</i>	Tax discretionary reserves as a percentage of taxation has been trending up and exceeds the peer municipal average.	
	<i>Water/WW Reserves as a % of Own Source Revenues</i>	Water and wastewater reserves as a percentage of own source revenues are significantly lower than the peer average. However, the water/ww reserves have been increasing since 2015.	
	<i>Stabilization Reserve Funds</i>	Tax stabilization reserves are above the recommended target.	
	<i>Capital Reserve Funds</i>	Capital reserves have been trending upward since 2015 and there is a planned contribution to the capital program in accordance with the AMP.	
	<i>Debt Service Ratio</i>	The Municipality's debt charges as a percentage of own source revenues in low in relation to peer municipalities.	
	<i>Debt to Reserve Ratio</i>	The Municipality has a positive debt to reserve ratio reflecting relatively low levels of debt in relation to reserves.	
	<i>Financial Position</i>	The financial position has been grandually increasing since 2015 and exceeds the peer municipal comparator group.	
	<i>Taxes Receivable</i>	Taxes receivables have been trending down and are well below the peer municipal comparators.	

*Summary
Financial Condition
Assessment*



Conclusion

A number of positive indicators were identified including:

- Taxes receivable trending down and well below the target ceiling.
- Higher than average household income.
- Property tax affordability is positive, with lower property and water and sewer rates as a percentage of household income.
- Stabilization Reserves are well above target range.
- Relatively high discretionary reserves in relation to taxation which have been increasing through planned contributions to the capital program.
- Low debt levels.
- Financial position that has been trending upward since 2015.

Conclusion

There are a number of challenges, however, that the Municipality must plan for in the future:

- North Middlesex, like other Canadian municipalities, is facing a gap in infrastructure. This situation may result in deterioration in the quality of its infrastructure which, in turn, will increase maintenance costs and could affect some service levels. A commitment to maintain infrastructure is a key strategic goal in the Municipality' Strategic Plan.
- Aging population increased the demand for some services.
- Large land area with limited population and assessment to support the infrastructure.
- Limited assessment base with a large proportion of the assessment in the farmland class.
- Building activity has trended down since 2016.
- Provincial funding has been decreasing over the past 5+ years.
- To be able to pay for services currently provided, the Town must ensure that:
 - There is recognition that some of the Municipality's costs are increasing at a rate faster than inflation (see Line-By-Line Report).
 - It continues to stay on its path toward financial sustainability and resiliency through well planned and executed strategies.
 - There is an alignment between the programs and services provided with shifts in demographics and the community's willingness to pay for services.