BMA
Management Consulting Inc.

Tax
Long Range
Financial Plan

Municipality of Middlesex Centre

June 4, 2025

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Accessibility

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List of Acronyms

- ARL – Annual Repayment Limit
- AMP – Asset Management Plan
- CCBF – Canada Community Building Fund
- CPI – Consumer Price Index
- DCs - Development Charges
- DCA – Development Charges Act
- IO – Infrastructure Ontario
- LRFP - Long Range Financial Plan
- OCIF – Ontario Community Infrastructure Fund
- OLT – Ontario Land Tribunal

Executive Summary

Executive Summary

The Long-Range Financial Plan (LRFP) provides a strategic roadmap for Middlesex Centre's financial sustainability over the next decade. It balances financial flexibility, sustainability, and vulnerability while ensuring the municipality can maintain existing services, fund future growth, and address infrastructure gaps. The LRFP highlights several key financial challenges, including limited revenue sources, demographic shifts, aging infrastructure, economic uncertainty, and rising costs.

Key Recommendations

1. **Tax Levy & Property Tax Strategy**
    - Implement an annual tax levy increase of 8.4%. Accounting for an estimated 1% growth in the tax base, this will result in a 7.4% annual increase in property taxes to meet the organization's financial obligations.
    - Monitor taxpayer affordability, ensuring property tax levels remain competitive.
2. **Reserve Fund Management**
    - Consolidate capital reserves into three main categories:
        - **AMP Capital Reserve Fund** (for asset replacement and rehabilitation).
        - **Growth-Related Capital Reserve Fund** (for projects supporting growth not funded by Development Charges).
        - **Efficiencies/Improvements Reserve Fund** (for discretionary service improvements).
    - Gradually increase annual contributions over 15 years to meet funding targets.
3. **Addressing the Infrastructure Gap**
    - Close the $14.8M annual shortfall for infrastructure needs through phased funding strategies.
    - Ensure sustainable annual contributions to capital reserve funds to prevent future backlogs.

4. **Debt Management**
    - Prioritize debt borrowing for growth-related projects to maintain intergenerational equity.
    - Keep debt levels below 17% of own-source revenues (OSR), with an absolute cap of 25% per provincial regulations.
5. **Asset Management & Growth Planning**
    - Continue active asset tracking to ensure timely maintenance and replacement.
    - Align reserve contributions with the Asset Management Plan (AMP) and Development Charge (DC) Background Study.
    - Gradually fund growth-related projects with a separate reserve to avoid reliance on general taxation.
6. **Strategic Use of Grants**
    - Direct Ontario Community Infrastructure Fund (OCIF) and Canada Community-Building Fund (CCBF) grants exclusively to asset replacement projects.
    - Avoid reliance on unpredictable grant sources for ongoing operational funding.
7. **Long-Term Planning & Financial Transparency**
    - Ensure LRFP remains dynamic, with annual updates reflecting economic conditions, Council decisions, and provincial policies.
    - Improve financial transparency and accountability through regular reporting on fiscal health and reserve fund status.

The LRFP outlines a proactive financial strategy aimed at balancing tax affordability, strategic growth funding, and infrastructure sustainability. It strengthens Middlesex Centre’s financial foundation while ensuring flexibility to navigate economic uncertainties and municipal service demands.

Long Range Financial Plan

Introduction

The Long-Range Financial Plan (LRFP) is a key strategic planning document that provides a comprehensive understanding of the Municipality's current and future financial position. A LRFP provides information to plan for the financial resources required over the long term and to understand the associated funding implications necessary to provide sustainable services. A LRFP projects operating, capital, reserve funds and debt requirements over 10 years. These projections provide insights for the Municipality to develop strategies and tactics to maintain services and address potential gaps.

The Municipality of Middlesex Centre, like other municipalities in Ontario, fund programs and services it provides within a limited funding framework. Middlesex Centre must address rising costs, managing service responsibilities because of changing demographics and an 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 LRFP.

The LRFP includes strategies, principles and policies to guide financial decision-making. 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.

Long-range financial planning is a highly collaborative process that considers future scenarios to assist the Municipality in the development of financial strategies to help navigate through future challenges and take full advantage of potential opportunities. The LRFP is not intended to replace the annual budget process, rather it provides a tool to measure the Municipality's capacity to meet operating and capital needs and help guide Council and staff in the decision-making process to ensure the Municipality remains in a strong financial position. Linking the LRFP into the annual budget process will lead to a more effective budgeting process.

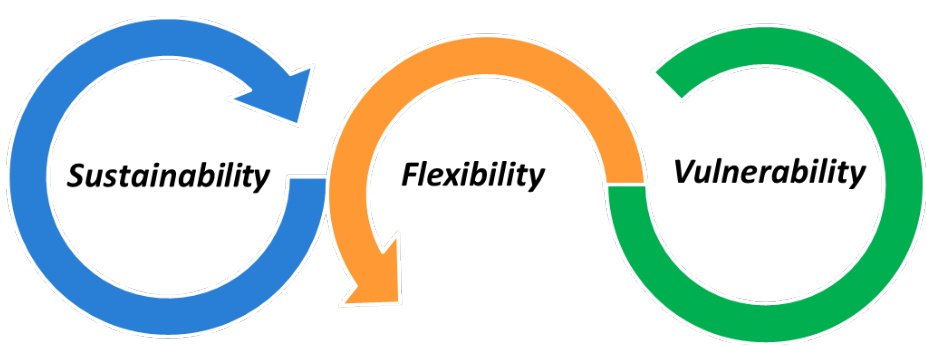
Sustainable Financial Planning Pillars

The LRFP is founded on balancing the three pillars of resiliency:

Sustainable Financial Planning Pillars

Sustainability	*Flexibility*	*Vulnerability*
The ability to provide and maintain services and infrastructure requirements without resorting to unplanned tax increases or cuts to services.	The ability to issue debt responsibly. Flexibility is also the ability to generate required revenues.	Focuses on addressing the municipality's vulnerability to external sources of funding that it cannot control and minimizing the level of risk that could impact its ability to meet financial obligations and commitments including the delivery of services.

The information contained on the next page reflects additional information for each of these factors, based on leading practice research.



Sustainability

The following summarizes key principles:

- ***Deliver Value for Money*** – Achieve reasonable and responsible tax increases to ensure that Council's highest priority services are maintained. The Municipality will act in the best interest of the taxpayer by providing quality service at an affordable cost and seek out efficient and quality improvements in the way services are managed and delivered.
- ***Active Asset Management and Tracking of Age and Conditions*** - Manage assets and replace or maintain assets over their life cycle in a timely manner. The Municipality recognizes its responsibility to provide good stewardship of public assets and has prepared Asset Management Plans.
- ***Strategic Use of Reserves and Reserve Funds*** - The Municipality diligently manages reserve and reserve funds to avoid the issuance of debt for the repair, rehabilitation, and replacement of existing assets where possible. Reserves and Reserve Funds will be funded to the levels required for their purposes, as set out in the Reserve and Reserve Funds Policy. This allows the Municipality to have a degree of liquidity to address unforeseen challenges and replace capital assets in a timely manner.

Flexibility

The following summarizes key principles:

- ***Responsible Debt Management*** – The Debt Policy provide a debt management framework that establishes debt limits, debt structuring and debt issuance procedures in accordance with industry best practices.
- ***Competitive Property Taxes*** – The Municipality will maintain competitive property taxes for residents and businesses.
- ***Affordability*** **–** The Municipality will maintain full and affordable targets to achieve desired service levels while minimizing the impact of borrowing to the taxpayer.

Vulnerability

The following summarizes key principles:

- ***Protect and Preserve Inter-Generational Equity*** – Inter-generational equity will be taken into consideration which ensures that taxpayers should, as a group, contribute to public expenditures from which they derive benefits. This is established on the principle that each generation of users should pay for the infrastructure that they require and not for the infrastructure required by other generations. This principal guides elements of the strategy and influences decisions about when infrastructure is built and how it is paid for.

- ***Maximize Non-Tax Supported Revenues*** - Ensure that the Municipality does not overly rely on grant funding for ongoing operating services, however, the Municipality actively seeks out all available sources of grants to maximize opportunities to support growth and capital requirements. The Municipality will charge users fees for services where appropriate which will be actively managed and monitored and updated on an annual basis to reflect inflationary increases. The Municipality operates on a ‘growth pays for growth’ principle by implementing Development Charges, Planning Fees and Building Fees.

- ***Changes in Economic Environment*** – There are unknowns that the Municipality must consider but cannot control. These include but are not limited to changing economic conditions, tariffs, carbon tax and changing legislation. These are not built into the LRFP but are being actively reviewed on an annual basis by management in the development of the annual budget.

The Financial Plan is Dynamic

Although every effort has been made to present accurate financial projections, based upon the data available at this time, the financial plan is a dynamic document and should be updated and re-evaluated, on an ongoing basis. The LRFP does not present a 10-year budget for Middlesex Centre. It is a possible view for future financial challenges and impact to inform and act upon.

There are many circumstances that could occur that would affect the assumptions in the projections for operating and capital. Council priorities, planning policies, changes in growth patterns, changes to service levels, and infrastructure requirements, will certainly lead to changes and the financial plan should be adjusted to reflect these changes as they occur.

It is anticipated that updates to the Long-Range Financial Plan (LRFP) will:

- Amend the assumptions, projections and strategies, as required, based on changes in the municipal environment
- Continue building awareness of future changes in operating and capital spending and funding levels
- Social/environmental changes
- Utilize Asset Management Plan (AMP) information which is evolving
- Development Charge Study updates and policy changes
- Changes in socio-economic conditions e.g. tariffs, pandemic, recession
- Provincial legislation and policy changes
- Spur the development of actions in future business plans that would respond to the strategies
- Incorporate new financial information related to strategic initiatives, corporate actions, and Master and Strategic Plans
- Reflect Council adopted policy changes
- Assist the Municipality in determining the extent of its financial challenges; and
- Reconfirm the key financial goals and strategies that should guide future planning.

Benefits of a Financial Plan

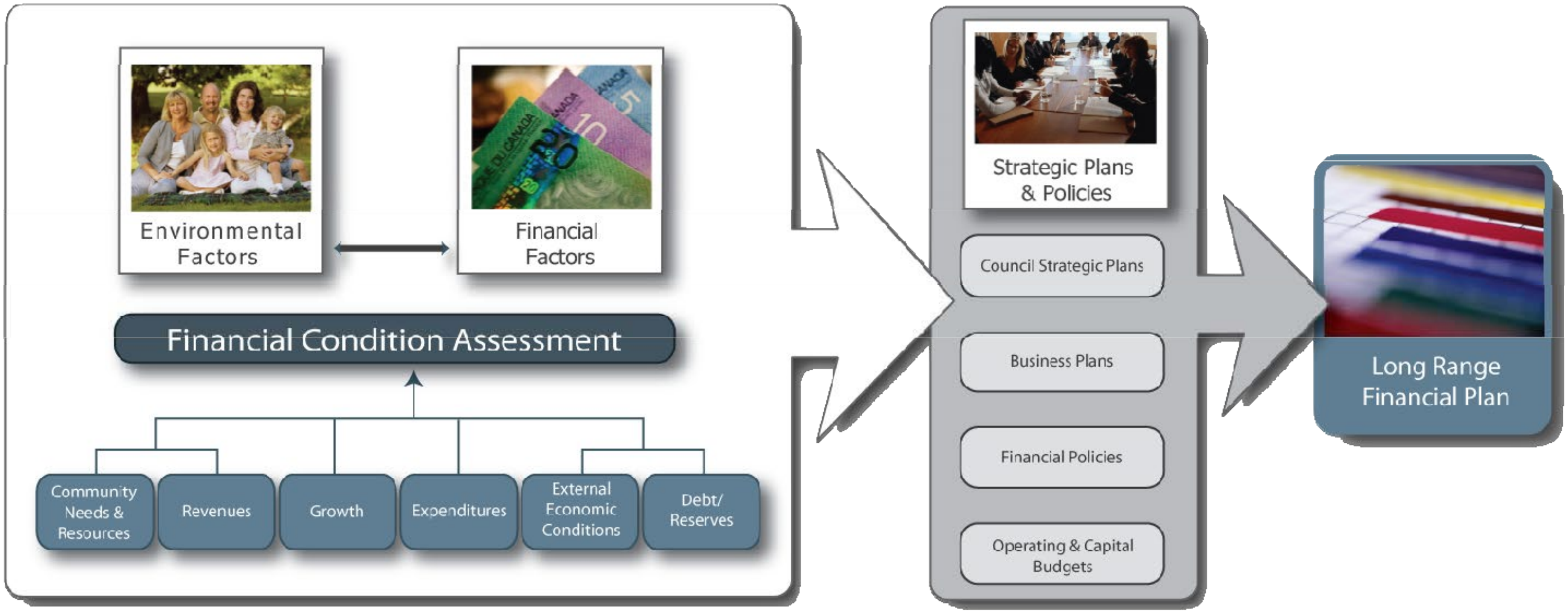
There are many benefits to the LRFP:

- ✓ 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

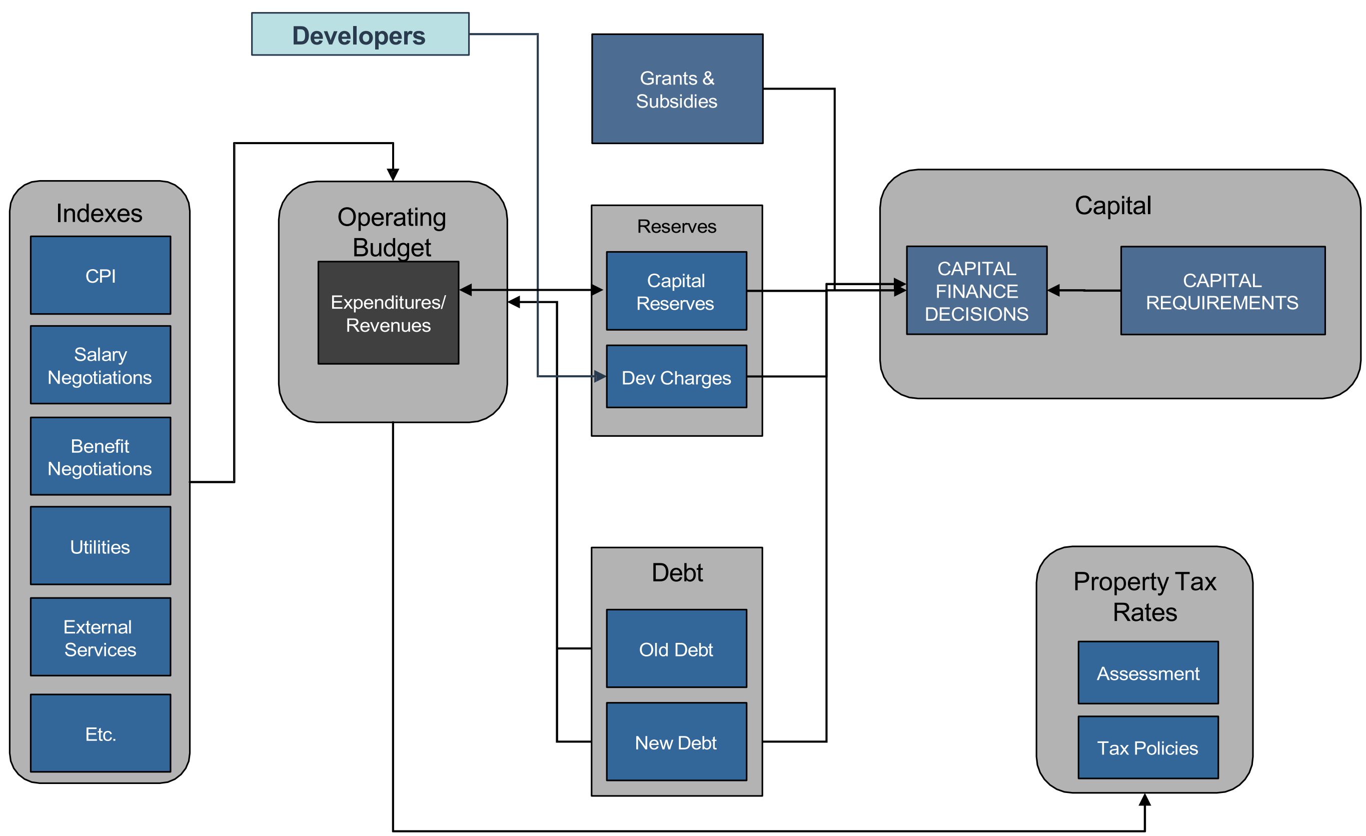
The following diagram provides an overview of the building blocks used to develop the Municipality's LRFP:



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.

Model Development

The LRFP was developed based on an analysis of all factors impacting capital and operating budgets. This forecast includes assumptions with respect to growth, changes in assessment, development charge revenues, interest rates impacting reserve funds 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.



Key Challenges and Trends - Financial Condition Assessment

Financial Condition Assessment - Introduction

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:

- Maintain required service levels including the maintenance and renewal of capital assets and infrastructure; and
- Meet goals and objectives identified in the Municipality's Strategic Plan and other Master Plans
- Withstand local and regional economic changes.

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.

The Municipality's 2025 Operating Budget included key financial and socio-economic indicators 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 the best practices in North America. 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 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.

Key Challenges and Trends

The financial assessment of Middlesex Centre reflects a strong financial position with sound practices, manageable debt and prudent fiscal practices. Notwithstanding these significant and strong attributes, Middlesex Centre like other Ontario municipalities is facing significant financial challenges. The development of the LRFP is a key step the Municipality has taken to ensure the Municipality's stable long-term financial future. There are several challenges and key considerations that form the basis for developing LRFP. These include but are not limited to the following:

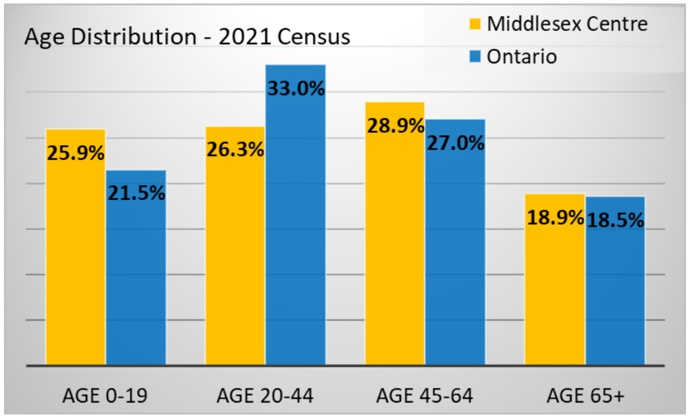
- Demographic shifts which impact service requirements and costs
- Limited Revenues Sources - Municipalities lack sufficient and flexible revenue-raising tools
- Competing Priorities and Affordability Balance - Pressure to keep taxes low while at the same time offer new enhanced programs
- Delayed re-assessment (2016 market values) and low commercial/industrial assessment base
- Residential Building Activity / Growth Pressures
- Asset Renewal/Replacement - Infrastructure Gap – a phase in strategy will be needed
- Numerous Separate Capital Reserve Funds Limits Flexibility
- Inadequate DCs to fund all growth-related expenditures
- Servicing new growth at the same time existing assets are reaching replacement needs
- Economic Uncertainty – tariffs, overall economic conditions and changes in legislation

Demographic Shifts

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. Demographic shifts have an impact on municipal services. An aging population has important implications for service demand, such as increasing pressures on age-sensitive municipal services. It can also lead to a shrinking of the labour force as baby boomers retire. The following provides a comparison of 2016-2021 age demographics in Middlesex Centre compared to Ontario averages.

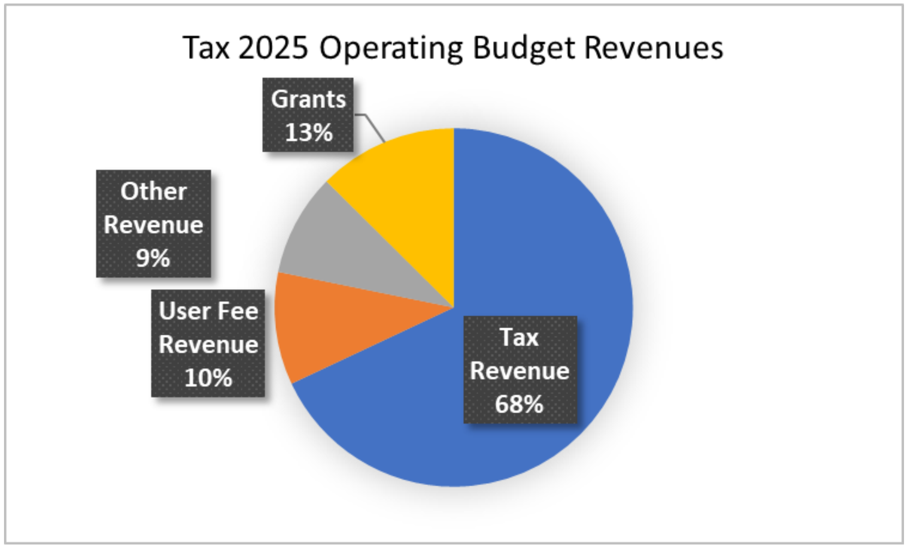
- Middlesex Centre has a higher level of growth in ages 0-19 (9.3%) compared to the Ontario average (1.1%) from 2016-2021. On a total proportional basis, in 2021, this age cohort is higher in Middlesex Centre than the Ontario average (25.9% vs. 21.5%). This has implications for recreation programming.
- The working age population, defined as 20-64, increased 7.0% in Middlesex Centre compared with a 4.4% increase in Ontario from 2016-2021. However, the proportion of the total population in this cohort is lower than the Ontario average in 2021 (55.2% vs. 60.0%).
- Middlesex Centre's 65+ population increased 19% from 2016-2021, compared to Ontario average of 17.1%. In 2021, the total population ages 65+ population is 18.9% in Middlesex Centre, compared with 18.5% in Ontario.

StatCan Census	Middlesex Centre			Ontario		
Age Profile	2016	2021	% change	2016	2021	% change
Age 0-19	4,494	4,910	9.3%	3,019,640	3,053,250	1.1%
Age 20-64	9,768	10,450	7.0%	8,177,200	8,532,985	4.4%
Age 65+	2,999	3,568	19.0%	2,251,655	2,637,707	17.1%
Total	17,262	18,928		13,448,495	14,223,942	



Limited Revenue Sources

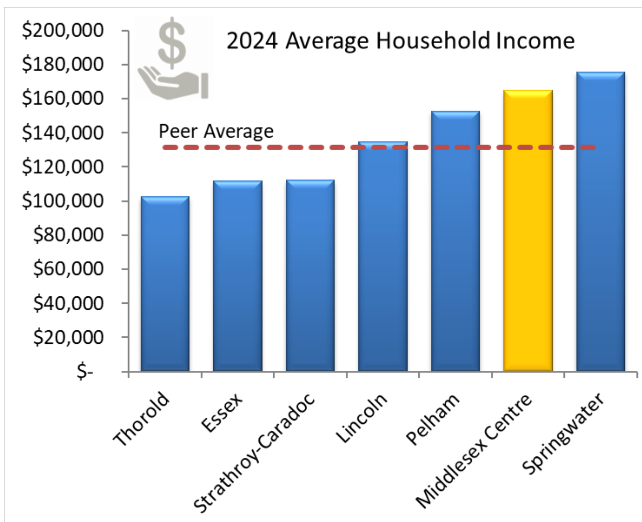
- The Municipality provides a wide range of services; however, it must rely on limited revenue sources. This requires the Municipality to consider all sources of available revenues.
- The Municipality charges user fees for all programs and services that there is a direct beneficiary and are included in the Municipality's Municipal Fee By-law.
- The primary source of revenue available to the Municipality is property tax revenues which accounts for approximately 68% of total revenues in 2025. Note that this excludes utilities.
- Grants include federal and provincial grants.

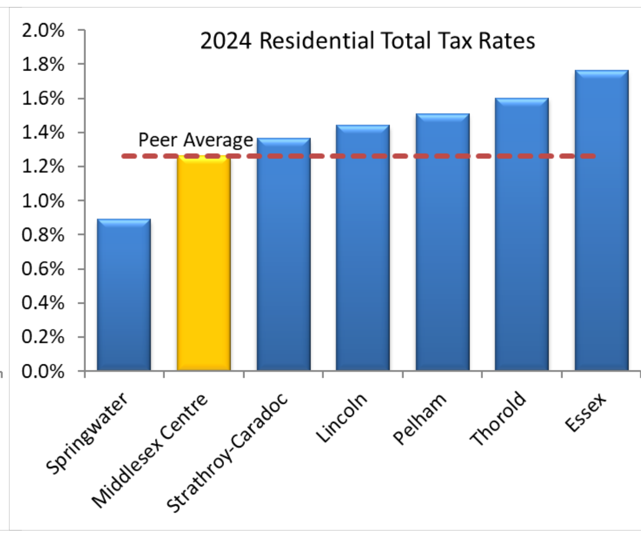


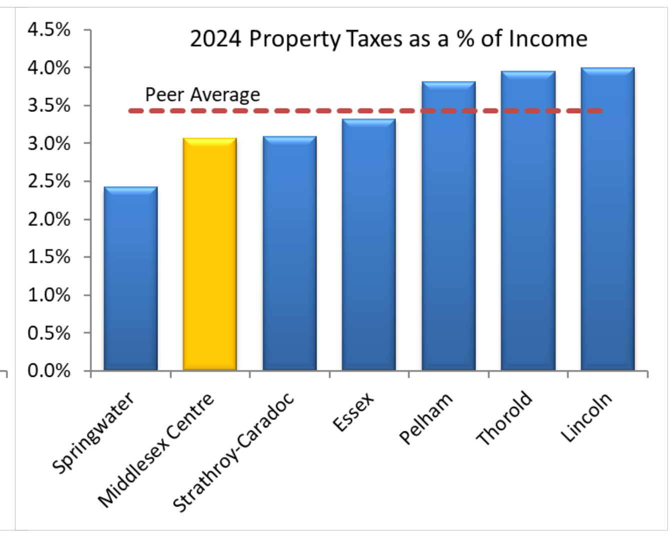
Balancing Affordability and Future Requirements

As identified in the Operating Budget, Middlesex Centre is a community of diverse citizens, rooted in rural and urban traditions, united through involvement, cooperation, and mutual respect. Setting the budget is a balancing act between often competing priorities – providing the level of services that residents deserve and expect versus their willingness to pay for property taxes. The following provides a summary of indicators:

- The average income level in Middlesex Centre is above the peer average
- Property tax rates in Middlesex Centre are amongst the lowest in the peer survey
- The taxes paid in Middlesex Centre in relation to household income are below the peer average, reflecting a relatively lower tax burden. For example, the average taxes as a percentage of income are 3.1% compared with the peer average of 3.4%. This indicator helps Council assess the affordability of municipal taxes in relation to the current service levels.







Assessment Composition and Delayed Reassessment

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.

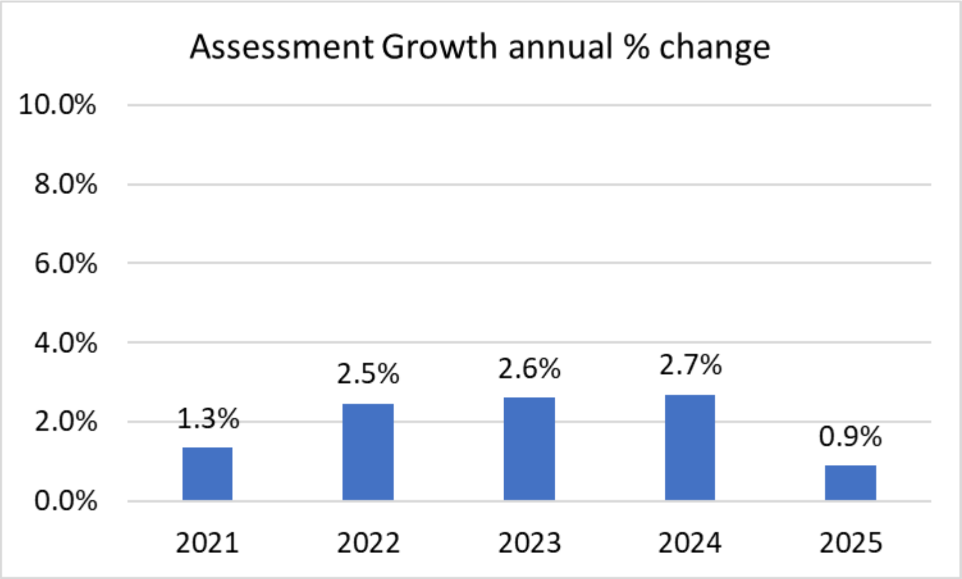
- ***Assessment Growth -*** Over the past 5 years Middlesex Centres' average annual assessment growth is 2.0%, however declined significantly in 2025 to 0.9%. This poses challenges on the ability to raise tax revenues. This is expected to continue over the next several years and has been taken into consideration in the LRFP.

- ***Delayed Reassessment*** - Assessed market values from January 2016 remain the benchmark for apportioning the municipal property tax burden for the 2025 tax year and thereafter for the foreseeable future. These decisions are made by the Province, with no control by municipalities across Ontario. Long delays in updating assessments have historically created inequities in taxation. In addition to future concerns, the continued delay of reassessment poses significant risks to the municipality and taxpayers due to the magnified implications of appeals and challenges.

- ***Assessment Mix -*** The assessment composition is an important indicator of fiscal strength. Middlesex Centre has a high proportion of farmland assessment and residential assessment, while the proportion of commercial and industrial assessment is low. This over-reliance on residential and farm assessment can affect affordability. This is the result of lower commercial and industrial assessment and higher farming assessment, which is discounted to 25% of the residential rate. 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. Municipalities try to maintain an 80/20 split, meaning residential should be 80% and non-residential at 20% of total assessment.

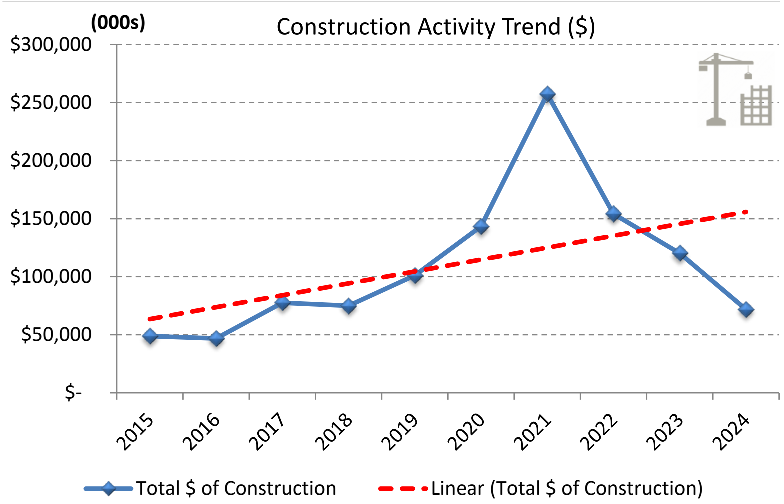
- As shown in the table below, residential assessment in Middlesex Centre is 79% of the total weighted assessment with 11% in the Farmland category. Weighted assessment is the actual assessment times the tax ratios. For example, all Municipalities charge a weighting factor of 1 to Residential but Farmlands have a ratio of 0.25, which reduces the available assessment base. For Multi-Residential, Commercial and Industrial classes, the ratios are determined by the municipality within Provincial parameters. The ratio for Middlesex Centre for Multi-Residential is 1.7697; Commercial is 1.1149 and Industrial is 1.7451. These tax ratios are applied to the unweighted assessment to calculate tax rates.
- The assessment changes have fluctuated from year to year.

2024 Weighted Assessment Composition			
Municipality	**Residential %**	**Farmland %**	**Non-Residential %**
Essex	83%	4%	13%
Lincoln	80%	3%	18%
Pelham	91%	1%	8%
Springwater	91%	2%	6%
Strathroy-Caradoc	81%	4%	15%
Thorold	82%	0%	17%
Peer Average	85%	2%	13%
Peer Median	83%	1%	14%
Middlesex Centre	79%	11%	10%

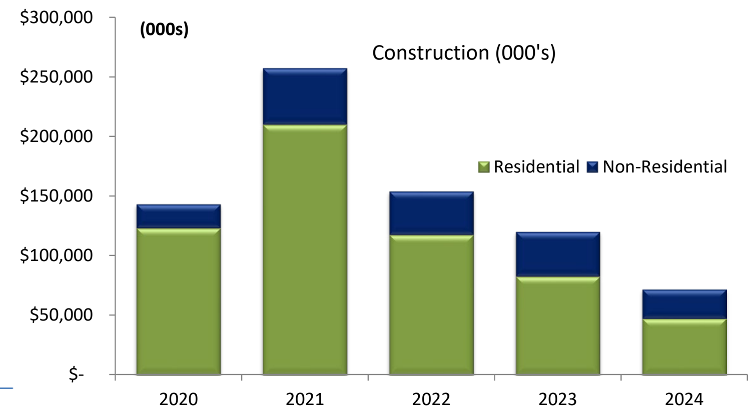


Residential Building Activity / Growth Pressures

- Another growth-related indicator is the construction activity within a municipality which provides information on both residential and non-residential development.
- Changes in building activity impact other factors such as the employment base, income, and property values. It is important to look at building cycles over a period, to identify trends in construction activity.
- Building activity in the Municipality increased steadily from 2015 to 2021. While the Municipality is still growing, there has been a gradual reduction in the pace of construction from 2021-2024. This downward change is expected to continue into 2025, as interest rates remain high and trade tariffs are unknown.
- New construction activity has resulted in increases in assessment which benefit the municipal budget. The Municipality must manage the implications of new growth. New growth requires new infrastructure. Much of this new infrastructure is funded by Development Charges; however,a portion of the growth-related infrastructure that benefits current taxpayers will need to be funded through the tax levy.



- 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 five years, residential/non-residential construction activity (on dollar value of construction) has been primarily in the residential sector.



Aging Infrastructure and Addressing the Infrastructure Gap

- As t he Municipality continues to grow and existing infrastructure continues to age, the amount of infrastructure that needs to be replaced also continues to grow, and so does the infrastructure gap. The infrastructure gap is the difference between infrastructure requirements to provide the desired level of service and the financial resources available to meet them.
- It is important to ensure that there are sufficient annual contributions to capital and capital-related reserve funds to cover the cost of infrastructure replacement, essentially closing the infrastructure gap over time.
- The Municipality's goals and objectives with respect to asset management are identified in the Asset Management Policy and the Asset Management Strategy.
- In 2025, there is a contribution to the tax levy of $9.95 million from Tax Capital Reserves Funds as well as Federal and Provincial Grants totalling $2.5 million. The annual AMP target is $21.9 million. The Growth-Related annual target is $5.4 million. In total, the annual investment required is $27.3 million for tax-related programs, which results in an annual funding gap of $14.81 million in 2025.
- The size of the deficit is daunting, but not insurmountable. Just as problems take time to develop, the solution will require the consideration of phase-in strategies. Failure to act now saddles future generations with a significant financial burden. As will be reflected later in the report, the LRFP reflects a gradual closing of the gap over a period of 15 years to support financial sustainability and affordability.
- The following table reflects the 2025 Operating Budget contributions and the annual funding requirement for tax-related asset replacement and growth requirements not funded from DCs as reflected in the Municipality's AMP and the DC Background Study.

2025 Capital Contributions (000's)		Tax
Transfer to Reserves - Buildings & Facilities	$	2,170
Transfer to Reserves - Fire Vehicles & Equipment	$	475
Transfer to Reserves - General Vehicles & Equipment	$	2,000
Transfer to Reserves - Roads Capital	$	5,300
Total Reserve Contributions	**$**	**9,945**
Transfer to Reserves - OCIF	$	1,918
Transfer to Reserves - CCBF	$	620
Total Grant Contributions	**$**	**2,538**
AMP Target	$	21,914
Growth Target	$	5,377
Total Recommended Annual Target	**$**	**27,291**
Estimated Annual Funding Gap	$	(14,809)

Numerous Separate Capital Reserves Funds Limits Flexibility

- Over time, the Municipality's system of reserves funds has become unnecessarily extensive and complicated, making management of the system onerous and impeding efforts to ensure reserve-related decisions and activities are transparent and straightforward to the Council, staff and the public. It will also be beneficial to the Province as this is a requirement for asset management.
- Extensive opportunity exists to not only reduce the number of reserve funds but also to rationalize the structure of reserve funds categories. This is needed to fully understand the impact of capital replacement of existing capital assets as well as the requirement to fund growth-related projects that are not funded from DCs.
- Recommendations have been made later in the report to realign the reserve fund classifications with the targets for annual reserve fund contributions.

Costs Increasing at a Rate Higher than Inflation

- There are factors which the Municipality has little or no control over, such as the rate of inflation, the possible impact of tariffs, financial impacts of changing legislation and post-COVID implications.
- Construction costs are expected to continue to increase, driving up the capital costs. On the operating side, as will be shown later in the report, there are some operating expenditures that are projected to exceed the Consumer Price Index (CPI).

Cost of Growth

- The cost of supplying and maintaining new infrastructure and associated services to support growth places considerable demands on the Municipal budget.
- New infrastructure development includes ongoing, long-term operating costs that contribute to the Municipality's financial commitments. These operating costs are not recoverable from development charges excluded in the Development Charges Act (DCA).
- The amount and timing of DC collections has a material impact on the Municipality's overall financial position.
- For some municipal infrastructure, because of the long lead times required to plan and build them, the Municipality must anticipate growth and then plan, finance, and build the required infrastructure before development charges are collected and the tax base exists to contribute revenues toward operating costs related to these new assets. This places additional stress on municipal finances.
- Added staff will be required to meet current service levels as the municipality grows. This impacts all departments from an increase in customer service requirements, increase in fire and emergency services, recreational amenities, more roads to service, etc.

Economic Uncertainty

- Changes and uncertainty in the economy have placed tremendous strain on local government finances which is outside the Municipality's control.
- Municipalities are struggling to cover costs, and this will be exacerbated in a downturn in the economy.

Key Challenges and Considerations Summary

Taken together, the ***sum of the issues and challenges is significant***. Maintaining existing levels of service in an environment where costs are increasing faster than inflation, introducing enhancements to services, meeting the demands of growth and changing the mix of services offered to meet a diverse community all contribute to an environment where expenditures exceed available revenue. Further, the Municipality is facing increasing demand for new infrastructure while it must prudently manage the existing assets. These challenges must also be addressed in a climate that is resistant to property tax increases and a desire to continue to receive high quality services.

The Municipality has established extensive policies, updated its Asset Management Plan and undertaken a multi-year capital budget strategy to support Financial Sustainability.

The Municipality continuously seeks opportunities to deliver programs and services to residents and businesses without increasing their tax burden. This includes regularly reviewing existing user fees and other non-taxation revenues, seeking new revenue-generating opportunities, and closely monitoring grant funding opportunities. Finding alternative sources of funding frees up the Municipality’s property tax levy to pay for other priorities.

Aligning Strategic Priorities and Financial Policies

Aligning Strategic Priorities

The LRFP is about highlighting financial implications for decision makers to discuss and make choices regarding balancing:

- ✓ Fairness and equity between existing and future taxpayers
- ✓ Meeting the requirements of development, and, to the extent possible, matching growth-related revenues with service demands
- ✓ Maintaining existing high quality affordable programs and services and meeting new demands for services based on changing community priorities and growth
- ✓ Maintaining existing infrastructure replacement requirements and the need to have infrastructure in place to support new growth and economic development
- ✓ Addressing health, safety risk, environmental risks as well as the demand for expanded service levels; and
- ✓ Achieving the Municipality's strategic, corporate and department initiatives.

Strategic Plan Excerpts

In January 2021, Middlesex Centre Council adopted a new Strategic Plan for 2021-2026 and reaffirmed their commitment to the existing plan. This Guiding Document lays out priorities and objectives for 2021 to 2026 and informs the services to residents and decisions on behalf of the community. Developed in consultation with the community, the plan reflects the input of residents, businesses and organizations. The Strategic Plan includes the vision, mission and values of the Municipality.

The plan outlines five strategic priorities with associated objectives and strategies. While all strategic priorities are important, a key focus of the LRFP is related to Sustainable Infrastructure and Services. The following summarizes the strategic priorities:

- ***Engaged Community***
- ***Balanced Growth***
- ***Vibrant Local Economy***
- ***Responsive Municipal Government***
- ***Sustainable Infrastructure and Services***
  - Improve safety for road users
  - Expand existing services in accordance with the pace of new development, and apply a financial sustainability lens to all municipal services and programs
  - Continue with the asset management plan and apply a financial sustainability lens to all municipal assets and infrastructure

Tax Long-Range Financial Plan – 10 Year Forecast

Tax Long Range Financial Plan (LRFP) Introduction

- The LRFP provides a projection of the Municipality's operating and capital requirements and a statement of financial position over the next 10 years as recommended by the Government Finance Officers Association. It identifies the key financial strategies that will influence building long-term financial sustainability.
- Middlesex Centre is on solid footing with sound financial management, however as mentioned before, the Municipality is also facing significant financial challenges.
- Maintaining existing levels of service, meeting changes in service demand and responding to inflationary pressures all contribute to increasing expenditure.
- The foundation for understanding the extent of the municipality's financial challenges is to provide financial projections into the future using assumptions and aligning financial capacity with long-term is full service of objectives.
- The projections demonstrate the magnitude of necessary revenues to cover expenditures. LRFP combines financial projections with strategy development.

Sources of Information Used in the Development of the LRFP

- ***2025 Operating, Capital Budget and 2025 Budget Book***—In order to set the stage for the LRFP, the historical financial trends were also considered to ensure that the strengths, weaknesses, opportunities and potential threats were identified.
- ***Asset Management Plan 2024 (AMP)***
- ***Financial Policies***—The Municipality has key financial policies which set the course for future financial decision-making. The Municipality has existing Debt, Reserve and Reserve Fund policies as well as Development Charge policies.
- ***Multi-Year Capital Budget***—The Municipality has a 10-year capital budget which incorporates future planned capital requirements.
- ***Development Charge Background Study (2024)***—The Municipality completed a DC Background Study which includes information related to future growth forecast for the Municipality.
- ***Municipal Strategic Plan***
- ***Reserves and Reserve Funds***—The Municipality provided the year end reserve fund balances for 2024 as well as reserve funding for the capital budget.
- ***Debt Outstanding***— The Municipality provided the debt schedules with opening balances for 2025 and throughout the 10-year forecast.
- ***Master Plans***— The Municipality has various Master Plans that have been considered as part of the LRFP for various departments such as Fire, Transportation and Community Services.
- ***Property Tax Assessment*** – A review of the 5-year historical assessment increases to help project future anticipated growth.
- ***Building Construction Activity*** – A 10-year review of the building growth and patterns over time in terms of residential versus non-residential growth.
- ***Organization Review 2023*** – Undertaken by Blackline Consulting that reviewed future staffing, roads, outdoor space and service requirements resulting from growth that is not recoverable from DCs.

Key Assumptions Incorporated in the Forecast

- ***Operating Budget Expenditures***—An indexing of all items of expenditure have been included in the forecast based on feedback from management and industry trends.
- ***Capital Reserve Fund Contributions*** - An annual contribution is made to the Capital Reserve Funds to support the replacement of existing assets and growth-related capital requirements as identified in the Municipality's AMP and the DC Background Study. This will be discussed in further detail, with a 15-year phase-in strategy to close the infrastructure gap.
- ***Capital Budget*** – The Municipality's 10 Year Capital Budget was used to determine the costs and funding sources. Municipal Council annually receives a 5-year Capital Budget, but the budget software allows for 10 years to be included as it includes DC Capital and Asset Management Capital requirements. To improve Council's understanding, the Financial Plan has been presented as separate asset replacement costs from capital-related to growth that is not funded from DCs.
- ***Unfunded Capital*** – The Municipality's Unfunded Capital Projects were not included in the Financial Plan but have been identified for future consideration ($11.6 million) over a 10-year period.
- ***Debt Charges –*** Any debt issued during the forecast period was issued at 4.5% over a period of 20 years which represents the most recent Infrastructure Ontario (IO) rates. These may be reduced but were determined at the time the LRFP was developed. The tax plan includes the issuance of $3 million in debt in 2034 to ensure reserve fund balances remain positive throughout the forecast period. Note the borrowing does not include the debt required to fund the development charge funded portion of any capital project. As DCs are lagging, debt will be required to fund that portion of debt as well as the levy portion.
- ***Interest Rates –*** Reserve Funds earned interest is forecast at 1% annually (from 2028) to be conservative and reflect recent reductions in rates.

- ***Capital Reserve Funds –*** Opening balances have been used to establish the reserve fund balances. As will be shown later in the report, the forecast realigns Capital Reserve Funds to improve flexibility.
- ***Assessment Growth –*** An annual assessment growth of 1% has been used throughout the 10-year forecast. This is based on growth studies performed as part of the Official Plan and used in the 2024 DC Study. However, the recent reductions in growth is expected to continue in the next several years. Therefore, to be conservative only 50% has been used in the forecast. This will be taken into consideration to estimate the impact of the Net Tax Levy.
- ***Additional Staffing Requirements –*** The Organizational Review (2023) identified additional staff requirement for tax by department and year to address growth related requirements and existing gaps in service delivery. These positions have been included in the LRFP. It should be noted that the timing of the hires has been modified from the Organizational Review due to financial constraints. There are also additional new positions that have been identified by internal staff teams to address growth and gaps in service delivery. The following table summarizes the positions and timing of hires. This includes an estimate of salaries and benefits.

Staffing Additions Based on 2023 Org Review Requirements up to 2031

Tax-Related Staff Additions	FTE	Year	Wages & Benefits
Corporate Services - Staff	1.0	2026	$ 107,764
PWE - Transportation Staff	1.3	2026	$ 118,427
Corporate Services - Staff	1.0	2026	$ 107,764
Corporate Services - Staff	1.0	2027	$ 107,764
PWE - Transportation Staff	0.5	2027	$ 45,549
Office of the CAO - Manager	1.0	2028	$ 155,624
Building Services - By-law Enforcement Officer	1.0	2028	$ 122,694
Building Staff Additions			
Building Services - Manager	1.0	2030	$ 155,624

Staffing Additions Based on Department Meetings (outside Org. Review 2023)

Tax-Related Staff Additions	FTE	Year	Wages & Benefits
Community Services - Parks Staff	1.0	2026	$ 91,098
Community Services - Manager	1.0	2029	$ 155,624
Fire Services - Fire Prevention Officer	1.0	2030	$ 138,639

- ***Ontario Community Infrastructure Fund (OCIF) -*** Ontario Community Infrastructure Fund (OCIF) formula-based funding is identified for years in which the funding amount is known (2025). The 2025 level of OCIF funding is then maintained for the remaining years of the forecast, recognizing the OCIF as a stable and long-term funding source for capital projects. However, no increases are forecasted during the next 10 years, despite inflationary increases. Funds are not to be used for growth-related expansion projects, therefore all OCIF grants are directed at Asset Replacement capital costs. This grant could be eliminated at any time.

- ***Canada Community-Building Fund (CCBF) –*** Formerly the Gas Tax. Funding provided by the Government of Canada as part of the New Deal for Cities and Communities. This Federal initiative is based on a long-term vision of sustainability for Canadian cities and communities, including four interdependent dimensions, economic, environmental, social and cultural. The program is intended to achieve results leading to cleaner air, cleaner water, and reduced greenhouse gas emissions. Canada Community-Building Fund (CCBF) has been shown as a stable and long-term funding source for eligible capital projects. The 2025-2028 level of CCBF funding is incorporated for the remaining years of the forecast, recognizing CCBF as a stable and long-term funding source for capital projects. These grants are directed at Asset Replacement capital costs. The assumptions include a 4% one-time increase in 2027 and no increases thereafter until such time as additional information is available.

Operating Expenditure Indexes

In developing the Operating Budget Forecast, indexes were developed, based on feedback from municipal staff. The following table summarizes the assumed indexes used in the financial forecast:

Indexes by GL Category	2026	2027	2028	2029	2030	2031	2032	2033	2034
Expenditures									
500 - Wages & Benefits	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%
505 - Ancillary Staffing Costs	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
510 - Clothing & Protective Equipment	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
540 - Supplies & Materials	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
545 - Fuel & Oil	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
550 - Repairs, Maintenance & Equipment Rental	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
551 - Stormwater Maintenance	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
560 - Insurance	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
570 - Utilities	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
575 - Studies, Plans, Assessments	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
580 - Subcontracted Services	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
585 - Non Capital Equipment, Hardware, Software	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
590 - Miscellaneous Expenses	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

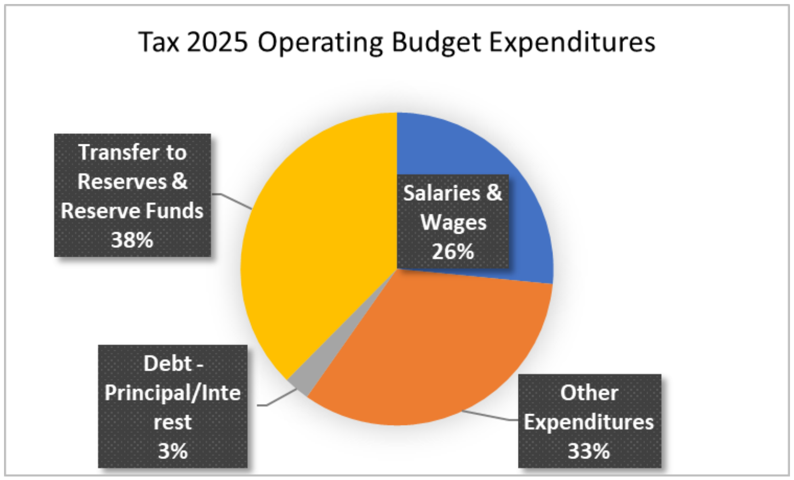
The indexes can be modified over time and have been established through discussions with staff about the trends experienced:

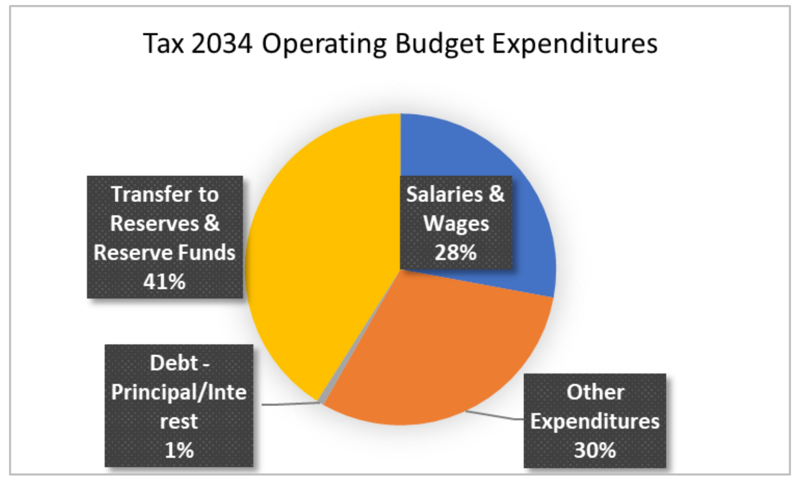
- Wages and Benefits are estimated to increase by a combined increase of 5.7%. This reflects a combination of pay grid changes, COLA annual increases and benefit increases. In 2025, salaries, wages and benefits represent approximately 27% of the total expenditures.
- Ancillary Staffing costs are minimal in terms of the overall budget, and are largely related to expenses for employee training, health and safety training, and conferences.
- Fuel and Oil are indexed at 5% annually. This reflects historical trends and additional fleet.
- Insurance is indexed annually at 10%, reflecting historical trends and future anticipated increases.
- Subcontracted Services is primarily related to the Police Budget which has been forecast to increase 5% annually.

Operating 10-Year Forecast – Expenditures

The following table and charts provide the 10-year forecast for operating expenditures by major type.

Tax - Expenditure by Type (000s)	2025 Budget	2026	2027	2028	2029	2030	2031	2032	2033	2034
Salaries & Wages	$ 10,230	$ 11,258	$ 12,076	$ 13,067	$ 13,995	$ 14,962	$ 15,849	$ 16,790	$ 17,789	$ 18,850
Other Expenditures	$ 12,808	$ 13,952	$ 14,644	$ 15,335	$ 16,066	$ 16,908	$ 17,658	$ 18,527	$ 19,448	$ 20,503
Debt - Principal/Interest	$ 1,029	$ 994	$ 963	$ 941	$ 841	$ 822	$ 804	$ 660	$ 522	$ 506
Transfer to Reserves & Reserve Funds	$ 14,480	$ 15,108	$ 15,595	$ 16,648	$ 17,944	$ 19,403	$ 21,156	$ 23,176	$ 25,381	$ 27,687
Total Expenditures	$ 38,546	$ 41,312	$ 43,278	$ 45,991	$ 48,845	$ 52,096	$ 55,468	$ 59,153	$ 63,140	$ 67,546



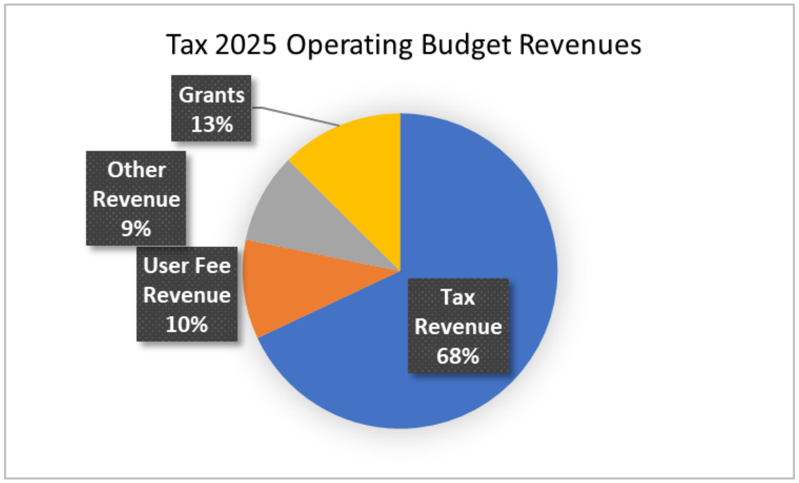


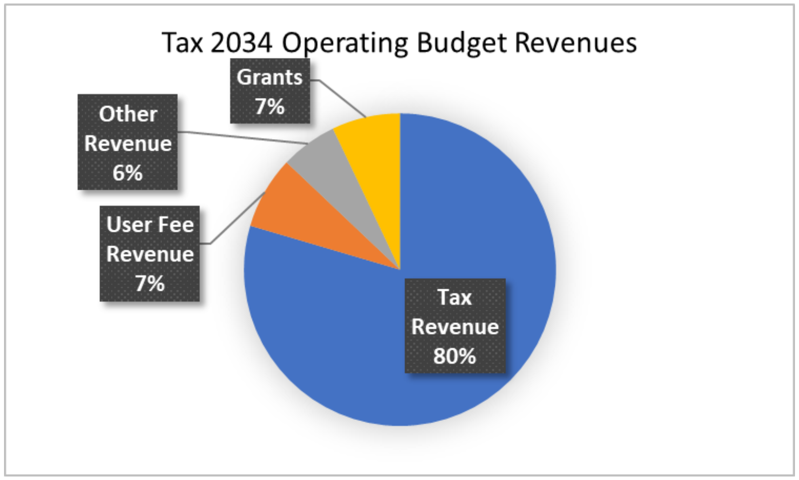
- The expenditure is projected to increase from $38.5 million to $67.5 million in 2034.
- Most of the increase, $13.2 million, is associated with increases in reserve transfers required to fund the AMP projects and growth assets.

Operating 10-Year Forecast – Revenues

The following table and charts reflect the operating revenues from 2025 to 2034 by major source.

Tax - Revenue by Type (000s)	2025 Budget	2026	2027	2028	2029	2030	2031	2032	2033	2034
Tax Revenue	$ 25,750	$ 27,913	$ 30,258	$ 32,800	$ 35,555	$ 38,551	$ 41,801	$ 45,312	$ 49,118	$ 53,244
User Fee Revenue	$ 3,854	$ 3,969	$ 4,088	$ 4,211	$ 4,337	$ 4,467	$ 4,601	$ 4,739	$ 4,882	$ 5,028
Other Revenue	$ 3,497	$ 3,554	$ 3,606	$ 3,657	$ 3,632	$ 3,691	$ 3,750	$ 3,812	$ 3,874	$ 3,931
Grants	$ 4,759	$ 4,709	$ 4,734	$ 4,734	$ 4,734	$ 4,734	$ 4,734	$ 4,734	$ 4,734	$ 4,734
Total Revenues	$ 37,860	$ 40,146	$ 42,686	$ 45,402	$ 48,258	$ 51,443	$ 54,886	$ 58,597	$ 62,608	$ 66,937





- Property Taxes increase from $25.7 million in 2025 to $53.2 million in 2034. In proportion to the total revenues, there is an increase in reliance on tax revenue from 68% in 2025 to 80% in 2034. As this is the only revenue source directly controlled by the municipality and increases are needed to close the infrastructure gap.
- Grants – From 2025-2034 the grants proportion of revenues reduced from 13% to 7% over the 10-year period. The main grants are the CCBF and the OCIF and not projected to increase.
- Other revenue and user fees are not predictable (in municipal control) and only inflationary increases are predicted to stay with CPI.

Tax Levy Changes, Assessment Growth, Property Tax Increases

Tax Levy Summary (000s)	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Tax Levy	**$ 25,750**	**$ 27,913**	**$ 30,258**	**$ 32,800**	**$ 35,555**	**$ 38,551**	**$ 41,801**	**$ 45,312**	**$ 49,118**	**$ 53,244**
Tax Levy % Change		8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%
Assessment Growth *		1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Total Tax Rate Change		7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%

* Excludes the impact of re-assessment

The table above reflects:

- Middlesex Centre requires an 8.4% annual increase in the property tax levy to meet financial and service obligations and to close the infrastructure gap and funding requirements for DC related growth assets in 15 years. It's important to note that while the plan is for an 8.4% increase, the actual allocation between growth and rate increases can vary from year to year. This variability depends on:
  - The level of actual growth that occurs each year, which may be higher or lower than anticipated
  - Provincial decisions regarding property reassessment, which can shift the tax burden and affect how much rate adjustment is necessary
  - As such, while the target is a total 8.4% increase, the distribution between tax base growth and tax rate changes is subject to change based on economic conditions and provincial policies.
- An annual growth in assessment of 1% (excluding reassessment) has been included in the analysis over the forecast period based on recent trends.
- The net result is an anticipated increase of 7.4% annually for property tax increases.

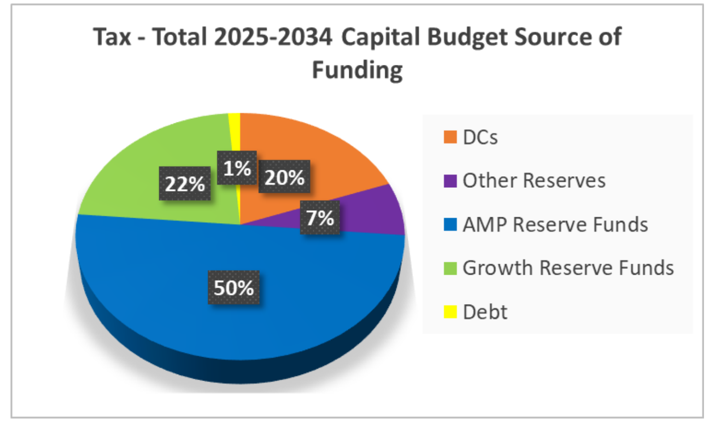
Tax Levy Supported Capital Budget Forecast

The Tax Capital Budget has been broken down into different sources of funding. As will be discussed in the reserve fund section of the forecast, recommendations have been made to separate reserve funding to isolate the impact of asset management requirements (AMP) and growth-related capital not funded from DCs. Funding infrastructure growth and maintenance is an area requiring strategies and decisions that has significant potential impacts to affect long term financial requirements.

Staff were able to review all capital projects and allocate the portion related to replacement of existing versus new capital-related to growth not funded from future DCs. Separating the capital budget in this way provides increased transparency for Council decision making. The strategy strives to achieve 100% pay-as-you-go funding for renewal of existing capital assets.

The following summarizes the sources of Capital Financing:

- ***AMP Capital Reserve Fund*** of $116.05 million, representing 50% of the total Capital Budget
- ***Growth Capital Reserve Fund*** of $51.8 million, representing 22% of the total Capital Budget
- ***DC Reserve Fund*** of $45 million, representing 20% of the total Capital Budget
- ***Other Reserves Funds*** of $16.2 million, representing 7% of the total Capital Budget
- ***Debt*** of $3.0 million, representing 1% of the total Capital Budget



Tax Capital Budget	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total 2025-2034
Total Capital Requirements	**$ 12,851,400**	**$ 10,493,117**	**$ 14,627,850**	**$ 16,196,050**	**$ 39,344,500**	**$ 44,347,938**	**$ 15,986,990**	**$ 25,247,279**	**$ 13,703,279**	**$ 39,301,946**	**$ 232,100,350**
DCs	$ 135,000	$ 738,750	$ 949,780	$ 2,458,929	$ 13,481,040	$ 10,586,824	$ 2,154,420	$ 2,288,110	$ 1,595,601	$ 10,608,477	$ 44,996,931
Other Reserves	$ 1,627,250	$ 2,760,500	$ 3,344,250	$ 3,401,650	$ 3,274,000	$ 1,765,000	$ -	$ -	$ -	$ -	$ 16,172,650
AMP Reserve Funds	$ 11,089,150	$ 6,896,117	$ 9,070,700	$ 7,651,300	$ 8,376,500	$ 18,768,772	$ 12,264,937	$ 21,224,279	$ 10,903,979	$ 9,809,846	$ 116,055,581
Growth Reserve Funds	$ -	$ 97,750	$ 1,263,120	$ 2,684,171	$ 14,212,960	$ 13,227,342	$ 1,567,633	$ 1,734,890	$ 1,203,699	$ 15,883,623	$ 51,875,188
Debt	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,000,000	$ 3,000,000

Excerpts - Budget as a Strategic Plan Deliverables

The process of developing the budget and the final budget itself directly supports <u>Sustainable Infrastructure and Services and Growth-Related Impacts</u>, as identified in the Middlesex Centre's Strategic Plan 2021-2026:

- ❖ Continue with our asset management plan and apply a financial sustainability lens to all municipal assets and infrastructure
- ❖ By progressively updating **our asset management plan and building the reserve funds** for the timely repair/replacement of our assets, and expanding our current practice of making annual reserve fund contributions toward the cost of projected asset management expenditures
- ❖ By communicating our approach to capital projects and **communicating clearly with the public on capital spending priorities** in terms of costs, benefits, funding sources and timing.
- ❖ Expand existing services in accordance with the **pace of new development**, and apply a financial sustainability lens to all municipal services and programs
- ❖ By analyzing and projecting the operating cost impacts of new residential development.

The above noted excerpts reflect the importance in improving the clarity of capital spending and priorities of balancing growth requirements and associated costs with the timely replacement of assets. The next section of the report identifies existing policies and leading practices and recommendations to realign the reserve funds to accomplish these objectives.

Existing Tax Supported Infrastructure Sustainability (Capital) Reserve Funds

Description

Tax Infrastructure Sustainability Reserves Funds are used to assist in financing the capital program. These reserve funds provide flexibility and liquidity as well as enhancing the Municipality's capability to handle current and future capital infrastructure needs. These include Building and Facilities, Fire Vehicles and Equipment, General Vehicles and Equipment, Roads Capital. In addition, the OCIF and the CCFB are part of the overall Tax Infrastructure Sustainability Reserve Fund portfolio.

2025 Operating Budget Allocation

There are several existing policies related to each Capital Reserve Funds:

- ***Building and Facilities Reserve Fund*** – To fund refurbishment, replacement costs of municipal facilities. The reserve fund balance target is based is based on 10% of total asset replacement in accordance with the AMP. Based on the 2025 Operating Budget, there is $2.16 million allocated to this reserve. Based on the policy target balance of 10% of replacement costs, this reserve is not meeting its target.
- ***Fire Vehicles and Equipment Reserve Fund -*** The reserve fund balance target is based on AMP of 15% of total asset replacement. Based on the 2025 Operating Budget there is $475,000 allocated to this reserve fund. Based on the policy target balance of replacement costs, this reserve fund is above the target. However, this has been done to assist with cash flows due to the timing of purchasing the replacement of fire vehicles and equipment over the next 5 years.
- ***General Vehicles and Equipment Reserve Fund*** - The reserve fund balance target is based on AMP of 10% of total asset replacement. Based on the 2025 Operating Budget there is $2.0 million allocated to this reserve fund. Based on the policy target balance of replacement costs, this reserve does not meet its target.
- ***Roads Capital Reserve Fund***- Based on the 2025 Operating Budget there is $5.3 million allocated to this reserve fund. The reserve fund balance target is based on AMP of 5% of total asset replacement. Based on the policy target balance of replacement costs, this reserve fund does not meet its target.

Realignment of Existing Tax Supported Capital Reserve Funds – Leading Practices

To achieve the above noted strategies identified in the Budget document, many municipalities use three distinct categories for Capital Reserve Funds as follows:

AMP Capital Reserve Fund

This ensures that funds are available for the replacement of existing tax-based capital expenditures related to the rehabilitation and replacement of assets. As shown previously, the recommended AMP target contributions are phased-in into the forecast over 15 years in consideration of taxpayer affordability. This increase is required to address the infrastructure gap, which as mentioned previously in the report is significant. This prioritizes the AMP requirements for the entire municipality rather than specific departments and removes ownership of the reserve funds.

Growth-Related Capital Reserve Fund

A separate reserve fund is typically established specifically for growth-related projects for the portion which is not funded from DCs. This would include the benefit to existing development as outlined in the DC Study. This allows Council to clearly identify expansion projects that support growth but will be funded from existing taxpayers. It is recommended that the target for this reserve in terms of annual contributions is determined using the DC Background Study.

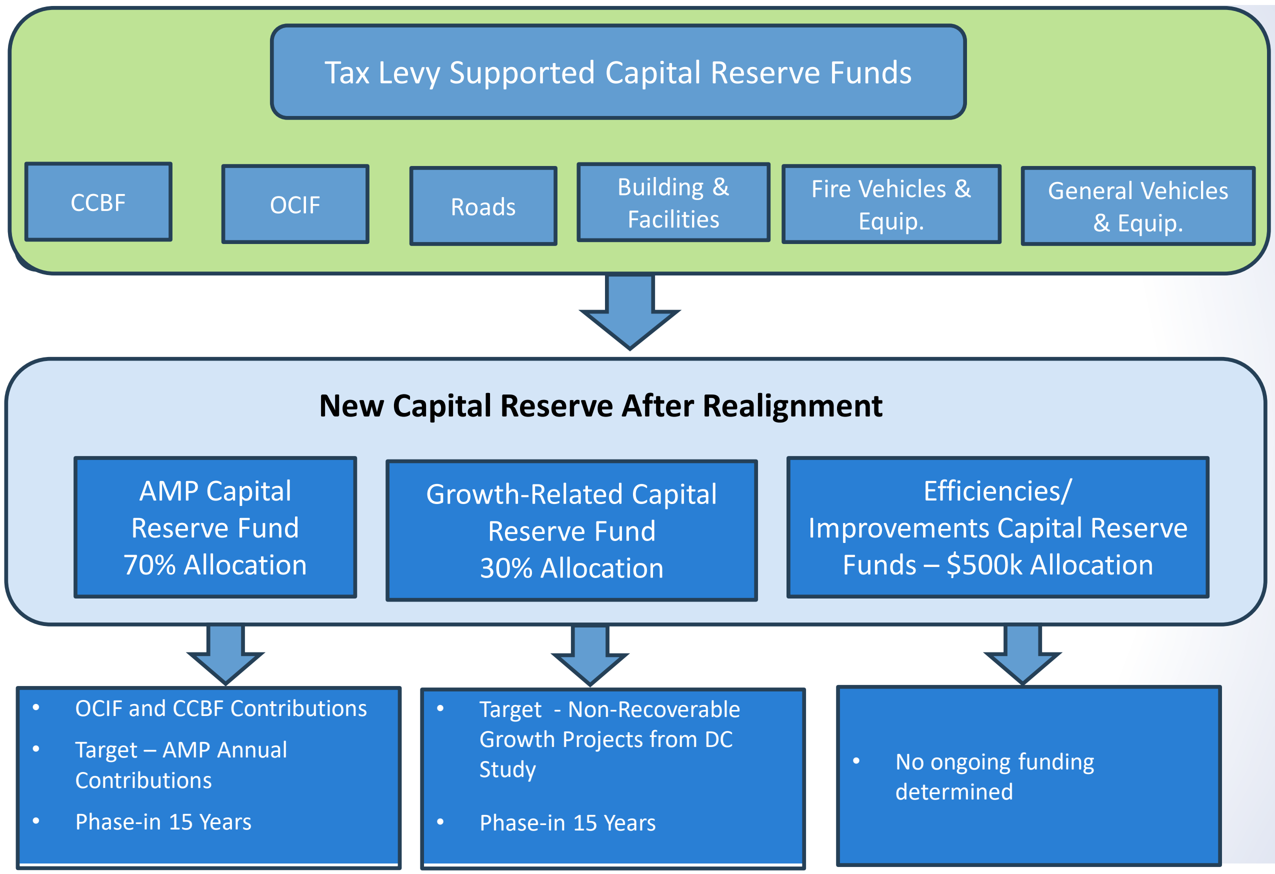
Efficiencies/ Improvements Capital Reserve Fund

This is driven by improvements or changes, desired service level increases (discretionary) and strategic investments. There is no current funding assigned (past 2025) and these projects will require a specific funding decision by Council to complete dues to limited resources.

The next step in the process was to ***reallocate the existing Capital Reserve Funds*** based on leading practices and the most current available data as well as the objectives of transparency, identifying the cost of growth, the cost of replacing existing assets and funding new programs.

Capital Reserve Fund Reallocation

The following describes the recommended allocation of the existing Tax Levy Supported Capital Reserve Funds. These include Roads, Building & Facilities, Fire Vehicles & Equipment, General Vehicles & Equipment Reserves Funds. In addition, there are CCBF and OCIF Grant Reserve Funds that are solely dedicated to the replacement of existing capital assets. Note that the recommendations are made for the 2026 Operating Budget to take place in January 2026. The following provides an explanation of the recommended allocation:



Capital Reserve Fund Realignment

<u>Observations</u>

- Annual contributions are made to address the eventual rehabilitation and/or replacement of the existing assets and infrastructure in accordance with the AMP. While efforts have been made to support infrastructure renewal, these reserves are currently underfunded.
- The Municipality is not meeting the collective target for reserve fund balances against its targets. This is referred to as the infrastructure gap.
- There is limited flexibility by maintaining separate Capital Reserve Funds by major assets noted above. Municipal Council should have the flexibility to manage within the budget the consolidated Capital Reserve Funds to address the most pressing needs of the year.
- There is a need to isolate the available reserve funds to align with AMP requirements related to replacement and growth-related capital not funded from DCs.
- In addition, there is a need to establish a separate reserve fund for capital projects that are currently unfunded related to new enhancements, efficiency improvements and changes in service levels.
- The municipality also receives federal and provincial grants ***Canada Community Building Reserve Fund (CCBF)*** and ***Ontario Community Infrastructure Reserve (OCIF)***, both of which can only be used for replacement of existing assets.

Capital Reserve Funds Realignment

Recommendations

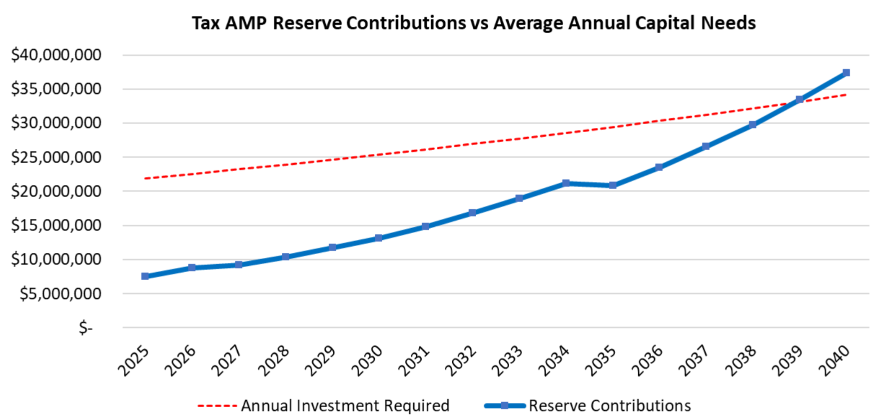
1. Realign the Capital Reserve Funds (Roads, Building & Facilities, Fire Vehicles and Equipment and General Vehicles and Equipment) into three major categories:

   - ***Asset Management Reserve Fund*** – Target Annual Contributions – $22.6 million in 2026 (phased-in over 15 years) to achieve target. The Ontario Community Infrastructure Reserve (OCIF) and the Canada Community Building Reserve Fund (CCBF) are obligatory reserve funds and cannot be consolidated. They remain as separate reserve funds, but it is recommended to be used for Asset Management to support bridges, culverts, roads and vehicles. This is tied to the AMP.

   - ***Growth-Related Capital Reserve Fund*** – Target Annual Contributions– $5.4 million phased-in over 15 years to achieve target by 2040.

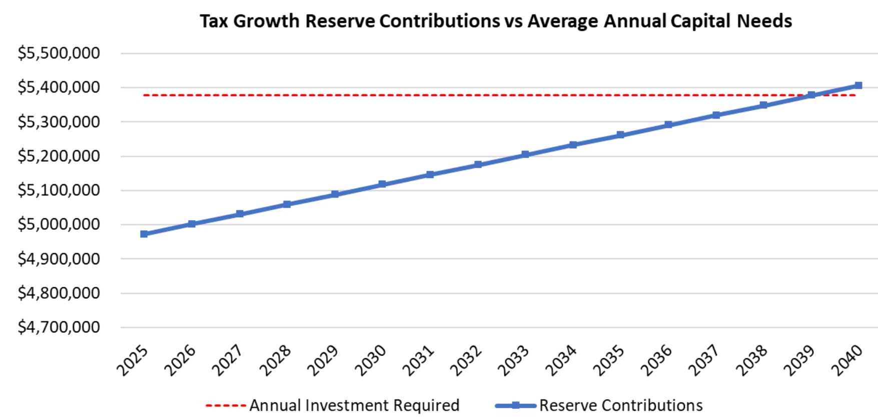
   - ***Efficiencies/Improvements Reserve Fund*** – Reallocate the existing Capital Reserve Funds based on the AMP funding requirements and DC Background Study, with a one-time $500,000 transfer to the Efficiencies/Improvements Reserve Fund. Target Annual Contributions (TBD). These projects are included in the budget as unfunded items. Council decisions to be determined.

10-Year Tax AMP Capital Reserve Fund Contributions vs. Target



As shown above, the plan is to gradually increase the AMP Capital Reserve Fund contributions to close the infrastructure gap by 2040. This is based on the target established through the AMP.

10-Year Tax Growth-Related Capital Reserve Fund Contributions vs. Target



As shown above, the plan is to gradually increase the Growth-Related Capital Reserve Fund contributions that are not funded by the DCs to close the infrastructure gap by 2040. This is based on the target established through the DC Background Study.

Existing Debt Policies

The Guiding Principles associated with the debt policy include:

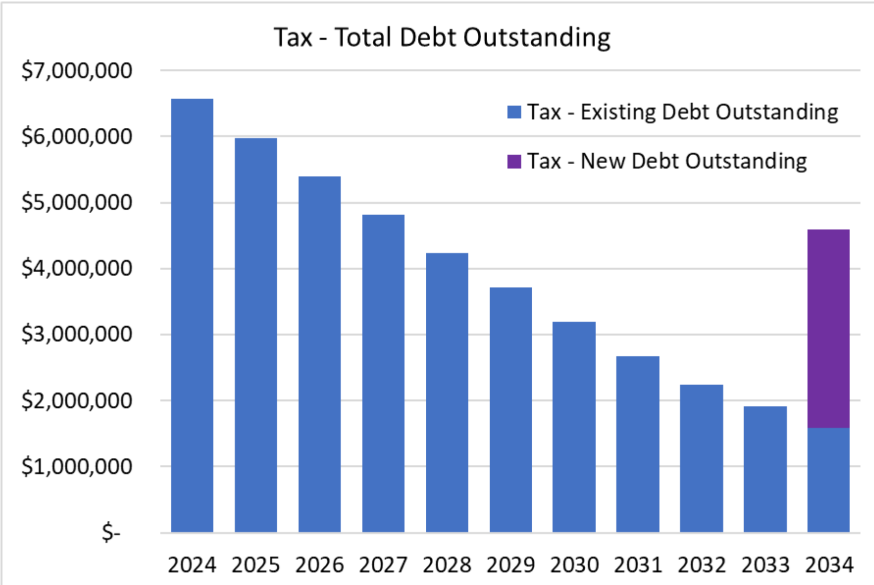
- ***Adherence to Statutory Requirements*** - Capital financing may only be undertaken when in compliance with the relevant sections of any applicable legislation and related regulations. Requirements include but are not limited to:
  - The term of capital financing shall not exceed the lesser of 40 years or the useful life of the related assets.
  - Long-term debt shall only be issued for capital projects.
  - The total financing charges after issuance of the proposed debt shall not exceed the Debt & Financial Obligation Limit for the Municipality, unless otherwise approved by Municipal Council and/or the Ontario Land Tribunal (OLT) when necessary.
- ***Ensure Long Term Financial Sustainability -*** Wherever possible, replacement assets as well as regular and/or ongoing capital expenditures will be recovered on a “pay as you go” basis through tax levy, user rates and/or reserve fund monies, including development charges.
- ***Limit Financial Risk and Exposure***
  - It shall be the general practice to issue debt where the interest rates will be fixed over the term and when interest rates are as low as possible.
  - For each project or purpose for which long-term financing is requested, the timing, type and term of financing will be determined with a view to minimizing long-term cost.
  - Under no circumstance may the term of financing exceed the anticipated useful life of the related asset. Wherever possible, as deemed by the Treasurer, the term of the debt shall be set for less than the related useful life of the asset.

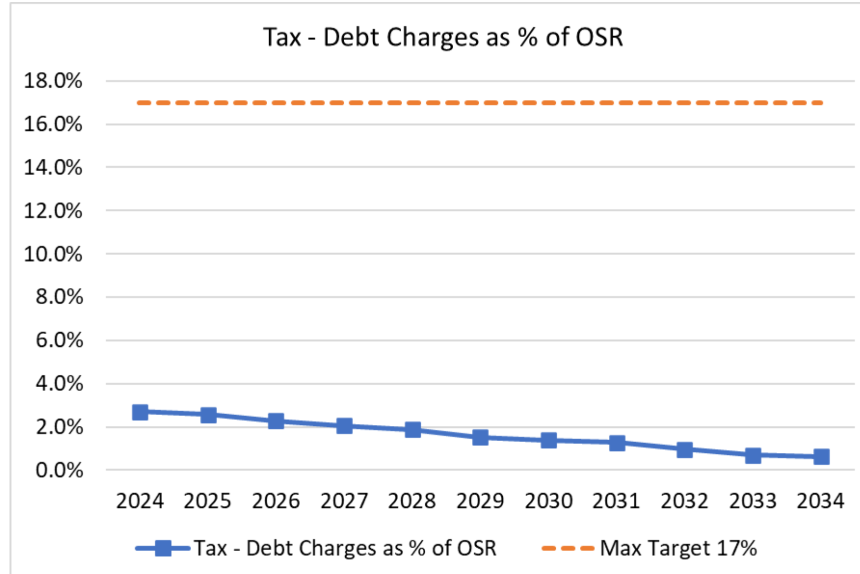
- ***Adherence to Debt and Financial Obligation Limit***
    - The Debt and Financial Obligation Limit of the Municipality <u>shall not exceed **17%** of total own source revenues</u> (OSR) unless otherwise approved by Municipal Council.
    - The Provincial Municipal debt limit is 25% of OSR, as in accordance with the Ontario Regulations and Annual Repayment Limit (ARL).
    - The Municipality will not issue long-term debt that will exceed the determined Debt and Financial Obligation Limit for the Municipality, unless it can be shown that the issuance of that debt will result in increased net revenues for the Municipality that will be sufficient to offset the increased costs relating to the debt issuance.

New Recommended Debt Policy

- That the Municipality prioritize debt borrowing for growth-related projects. The objective is to stay below the 17% where possible (unless Council approves) and below the 25% Annual Repayment Limit (ARL). This supports inter-generational equity.

10-Year Tax Debt Forecast





- The forecast debt is declining until 2034. There is one growth-related debt issuance in 2034 of $3 million, mainly for the Ilderton Recreation Facility (Phase 1 - New Arena).

- Tax debt charges as a percentage of own source revenues decline over the forecast period from 2.6% in 2025 to 0.6% in 2034, well below the limit of 17%.

Conclusion

The key financial strategies outlined in the **Middlesex Centre Long-Range Financial Plan (LRFP) - 2025** are:

Tax Levy and Property Tax Increases

- Implement annual tax levy increases of 8.4%, resulting in property tax increases of approximately 7.4% annually.
- Monitor taxpayer affordability, ensuring taxes remain below peer municipalities' averages.

Reserve Fund Consolidation and Realignment

- Consolidate existing capital reserve funds into three major categories:
  - **AMP Capital Reserve Fund**: For asset replacement and rehabilitation.
  - **Growth-Related Capital Reserve Fund**: For growth-related projects not funded by Development Charges (DCs).
  - **Efficiencies/Improvements Reserve Fund**: For discretionary service improvements and strategic investments.

Infrastructure Gap Management

- Address the $14.8M annual infrastructure gap through a 15-year phase-in strategy.
- Ensure sufficient annual contributions to capital reserve funds to cover infrastructure replacement costs.

Gradually Phase-in Annual Contributions to Reserve Funds:

- AMP Capital Reserve Fund: $22.6M annually by 2026 (phased over 15 years).
- Growth-Related Capital Reserve Fund: $5.4M annually by 2026 (phased over 15 years).

Debt Management

- Use debt strategically for growth assets only to support inter-generational equity.
- Prioritize debt borrowing for growth-related projects. The objective is to stay below the 17% where possible (unless Council approves) and below the 25% Annual Repayment Limit (ARL).
- Maintain tax debt charges as a percentage of OSR below the ceiling limit.

Asset Management

- Continue active asset management and tracking of asset age and condition.
- Align reserve fund contributions with the Asset Management Plan (AMP) and Development Charge Background Study.

Strategic Use of Grants

- Direct all Ontario Community Infrastructure Fund (OCIF) and Canada Community-Building Fund (CCBF) grants to the AMP Capital Reserve Fund for asset replacement.

Financial Sustainability and Flexibility

- Maintain competitive property taxes and responsible debt management.
- Ensure intergenerational equity by matching infrastructure costs with the generation benefiting from them.
- Maximize non-tax-supported revenues through user fees and grants.

Long-Term Planning

- Use a dynamic financial plan to adapt to changing priorities, growth patterns, and economic conditions.
- Link the LRFP to the annual budget process for more effective decision-making.
- Annually report to Council on challenges and changes to the assumptions and financial/economic environment. This can be accomplished through the budget book or interim reports.

These strategies aim to balance growth-related demands, infrastructure replacement needs, and taxpayer affordability while ensuring long-term financial sustainability.