

Corporation of the Township of North Frontenac – Asset Management Plan Update

Contents

	Page
About this report	[4]
Executive Summary	[5 - 6]
Overview of the Township's Infrastructure	[7]
Summary of Capital Deficit	[8]
10 Year Capital Asset Summary	[9]

© 2016 KPMG LLP, a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International.

3

KPMG

About this Report

In keeping with the requirement under the Municipal Infrastructure Investment Initiative (MIII) to develop an asset management plan as a prerequisite for receipt of funding from the Province, KPMG developed this report as an amendment to the plan developed and dated Dec 5, 2013 ('the Plan'). The purpose of this report is to provide an update to supporting schedules for the projected 10 Year Capital Deficit up to December 31, 2026.

To develop this update, KPMG developed an understanding of current and projected capital asset needs, reviewed the Township Capital Plan and the capital asset needs addressed since then. Without the updated engineer roads needs study, bridge condition report, building condition report on all Township buildings but in consultation with department managers and staff, KPMG reviewed the tangible capital asset register in detail to ensure all assets were being considered for future repair/replacement or disposal. KPMG obtained the most recent completed infrastructure needs studies for Hard Top (2012), Gravel (2014), Bridges/Culverts (2014) to include in this update.

KPMG would like to note for council that the asset consumption ratio which measures the extent to which depreciable assets have been consumed is 82%, which indicates the Township has a greater % of old infrastructure compared to the average of Southern Lower Tier municipalities of 45% (per MMAH Financial Indicator Review).

Executive Summary

The development of an asset management plan has been identified as a pre-requisite for the receipt of funding from the Province of Ontario (the 'Province') under the Municipal Infrastructure Investment Initiative ('MIII') and as such, represents an important first step in obtaining financing for necessary infrastructure investments. That said, planning for capital reinvestment is essential with or without the incentive provided under MIII, particularly given that a number of municipalities are now approaching end-of-useful-life for significant components of their infrastructure.

Current state of infrastructure

Based on the last estimated replacement reports provided by the Township, infrastructure represents a major investment on the part of the Township of North Frontenac (the 'Township'), with the estimated replacement cost of its assets – roads, bridges, buildings, vehicles, and equipment – amounting to just under \$50 million, or \$27,000 per resident. In addition to the cost of replacing its assets, the Township is also required to repair and rehabilitate its infrastructure over its entire useful life.

While the amounts of the Township's reconstruction and replacement are significant, the real pressure from the perspective of its infrastructure comes from its current condition. Condition analysis update for paved and unpaved roads and bridges that highlights deficiencies and items such as inadequate surface widths or types with their overall structural adequacy which provides the overall replacement needs plus an estimate for the required life cycle costs needs to be completed for a full asset management plan update in 2018.

No structural condition assessment has yet been completed for the municipal buildings and/or incorporated into this Plan update at this time.

Financing strategy

While the Township is unable to unilaterally address its infrastructure-related financial requirement, it recognizes the need to begin to address the challenge. As part of its financing strategy, the Township is proposing the following measures intended to increase funding for capital requirements:

- Continue with the current annual capital levy of 2%,
- Consider the use of external debt as a means of funding infrastructure requirements; and
- Continuing to pursue grant programs provided by senior levels of government.

KPMG

© 2016 KPMG LLP, a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International.

5

Executive Summary (continued)

The issue of affordability

When considering the Townships ability to fund its capital requirements and its entitlement for grants, there needs to be a recognition of the limited ability of the Township to finance its capital needs due to issues surrounding affordability. In addition to the affordability considerations developed by the Province under the revised Ontario Municipal Partnership Fund ("OMPF") model, noting no data update has been released by Stats Canada the information below has not changed from our original report, however, it is important to remember that:

- The Township's population has not grown at the same rate as other communities and the Province as a whole. While the Province's total population increased by 19.5% between 1996 and 2011, the Township's population decreased by 3.9% over the same period. In the absence of major population growth, fewer people are available to fund the infrastructure requirement, increasing the overall cost to the individual taxpayer.
- The Township's residents have a higher degree of reliance on pension income (i.e. fixed income) as opposed to other communities. Overall, 39% of total reported personal income in the Township is derived from pensions, as opposed to the Provincial average of 14%. The greater reliance on fixed-income pension reduces the ability of the Municipality to raise funds through taxation and user fees due to concerns over affordability.

About this update

The Township's asset management plan and update to supporting schedules has been developed based on the guidance provided by the Province in *Building Together – Guide for Municipal Asset Management Plans, which has been tailored to reflect the small size of the Municipality and the nature of its operations and infrastructure. Preparation of the plan involved Council and Municipal staff in completing this asset management plan and update to supporting schedules for the Township.*

KPMG

© 2016 KPMG LLP, a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International.

6

Corporation of the Township of North Frontenac – Asset Management Plan Update

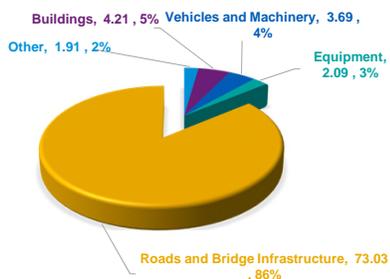
Overview of the Township's Infrastructure

At December 31, 2015, the Township reported a total investment of approx. \$85 million in tangible capital assets ('TCA') at historical cost. This equates to an average investment of approximately \$23,900 per household, or \$46,100 per resident.

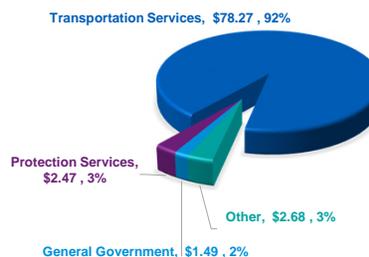
With a historical cost of \$73 million, roads represent the single largest type of infrastructure and accounts for 86% of the Township's total infrastructure at historical cost.

From a functional perspective, the Township's road network (Transportation Services) represent the largest component of its infrastructure (\$78 million), accounting for a combined total of 92% of the overall historical cost of the Township's infrastructure.

Tangible capital assets by type (historical cost, in millions)



Tangible capital assets by use (historical cost, in millions)



© 2016 KPMG LLP, a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International.

Corporation of the Township of North Frontenac – Asset Management Plan Update

Summary of Capital Deficit

In thousands of dollars (000's)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total
Capital Needs											
Roads Infrastructure*	\$ 1,060	\$ 855	\$ 1,263	\$ 923	\$ 1,545	\$ 1,987	\$ 3,173	\$ 3,324	\$ 3,983	\$ 1,897	\$ 20,010
Other Capital Assets**	\$ 1,566	\$ 686	\$ 508	\$ 526	\$ 1,111	\$ 786	\$ 622	\$ 546	\$ 811	\$ 507	\$ 7,649
Total Capital Needs	\$ 2,626	\$ 1,541	\$ 1,770	\$ 1,449	\$ 2,656	\$ 2,773	\$ 3,795	\$ 3,869	\$ 4,794	\$ 2,404	\$ 27,659
Capital Funding											
Gas Tax Revenues - Federal ¹	\$ 56	\$ 59	\$ 60	\$ 60	\$ 61	\$ 62	\$ 63	\$ 64	\$ 65	\$ 66	\$ 617
Gas Tax Revenues - County ²	\$ 130	\$ 132	\$ 134	\$ 136	\$ 138	\$ 140	\$ 142	\$ 145	\$ 147	\$ 149	\$ 1,394
Ontario Municipal Partnership Fund (OMPF) ³	\$ 250	\$ 250	\$ 250	\$ 250	\$ 250	\$ 250	\$ 250	\$ 250	\$ 250	\$ 250	\$ 2,500
Ontario Community Infrastructure Fund (OCIF) ⁴	\$ 143	\$ 202	\$ 310	\$ 315	\$ 320	\$ 325	\$ 330	\$ 334	\$ 339	\$ 345	\$ 2,963
One-time OCIF (Bridge project) ⁵	\$ 302										\$ 302
Taxes ⁶	\$ 1,790	\$ 1,826	\$ 1,862	\$ 1,900	\$ 1,938	\$ 1,976	\$ 2,016	\$ 2,056	\$ 2,097	\$ 2,139	\$ 19,601
Projected Capital Funding	\$ 2,671	\$ 2,469	\$ 2,617	\$ 2,661	\$ 2,707	\$ 2,754	\$ 2,801	\$ 2,849	\$ 2,899	\$ 2,949	\$ 27,376
Deficit (Surplus)	\$ (44)	\$ (928)	\$ (846)	\$ (1,212)	\$ (51)	\$ (0)	\$ 994	\$ 1,020	\$ 1,896	\$ (544)	\$ 283
* includes Paved Roads, Unpaved Roads, Bridges, Culverts, Sidewalks ** all other capital assets Assumptions: 1 Federal Gas Tax based on Ministry communication with Township re 2014-2018. From 2019 onward assumed 1.5% annual growth 2 County Gas Tax based on 2016 budget plus assumed 1.5% annual growth. 3 Township allocates \$250k of its OMPF funds to Roads Sustainability 4 As per 2017-2019 - OCIF Allocation Notice, >2020 - Based on 2019 amount plus assumed 1.5% annual growth 5 Per Township estimated grant funding. 6 2017 Total taxes based on 2016 (\$1,755k) plus 2% levy. Total tax dollars assumed to increase at 2% annually Observations: (000's) Average annual capital spending \$ 2,766 Average annual capital funding \$ 2,738 Average annual unfunded capital needs \$ 28 Council should consider where further grant applications can be made for significant projects Projected annual capital levy increase 0.5% (Based on 2015 net tax revenues \$5.6m: 1% = \$56k)											



© 2016 KPMG LLP, a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International.

Corporation of the Township of North Frontenac – Asset Management Plan Update

10 Year Capital Asset Summary

Projected Capital Needs (000's)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total
Paved Roads	\$ 627	\$ 471	\$ 672	\$ 530	\$ 1,103	\$ 1,580	\$ 2,619	\$ 2,901	\$ 3,581	\$ 1,409	\$ 15,493
Unpaved Roads	\$ 142	\$ 288	\$ 270	\$ 262	\$ 338	\$ 352	\$ 456	\$ 394	\$ 303	\$ 353	\$ 3,156
Bridges/Culverts	\$ 291	\$ 96	\$ 321	\$ 130	\$ 105	\$ 54	\$ 98	\$ 29	\$ 100	\$ 136	\$ 1,359
Roads Infrastructure Subtotal	\$ 1,060	\$ 855	\$ 1,263	\$ 923	\$ 1,545	\$ 1,987	\$ 3,173	\$ 3,324	\$ 3,983	\$ 1,897	\$ 20,010
Equipment/Vehicles	\$ 565	\$ 678	\$ 508	\$ 520	\$ 1,111	\$ 757	\$ 622	\$ 546	\$ 811	\$ 507	\$ 6,624
Buildings	\$ 1,001	\$ 8	\$ -	\$ 6	\$ -	\$ 10	\$ -	\$ -	\$ -	\$ -	\$ 1,025
Other Capital Assets Subtotal	\$ 1,566	\$ 686	\$ 508	\$ 526	\$ 1,111	\$ 766	\$ 622	\$ 546	\$ 811	\$ 507	\$ 7,649
Total Capital Needs	\$ 2,626	\$ 1,541	\$ 1,770	\$ 1,449	\$ 2,656	\$ 2,753	\$ 3,795	\$ 3,869	\$ 4,794	\$ 2,404	\$ 27,659

Detailed schedules can be made available.



© 2016 KPMG LLP, a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International.



kpmg.ca



© 2016 KPMG LLP, a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.