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Corporation of the Municipality of Temagami

Municipal Asset Management Plan

December 31st, 2013

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Glossary of Terms

Asset management planning	Asset management planning is the process of making the best possible decisions regarding the acquisition, operating, maintaining, renewing, replacing and disposing of infrastructure assets. The objective of an asset management plan is to maximize benefits, manage risk and provide satisfactory levels of service to the public in a sustainable manner.
Historical cost	Historical cost represents the actual cost incurred by the municipality at the date of acquisition. Given the timeframe between the date of acquisition and the current date, historical cost is not reflective of the replacement cost of the asset.
Replacement cost	Replacement cost reflects the cost that would be incurred in the event that the municipality was required to replace the asset at the present time in new condition.
Life cycle cost	Life cycle costs reflect the cost of all asset management activities that are recommended for the maintenance of the asset, including major periodic maintenance activities (e.g. crack sealing for paved roads), including the ultimate replacement of the infrastructure but not its initial acquisition. For the purposes of the asset management plan, life cycle costs have been expressed in current dollars and have not been adjusted for anticipated inflationary increases over the life of the assets except where noted.
Condition assessments	Condition assessment are a means of expressing the current state of the municipality's infrastructure based on three possible ratings – good, fair and poor. The determination of the ratings will vary based on the type of infrastructure involved.
Immediate infrastructure requirements	For the purposes of the asset management, immediate infrastructure requirements are capital investments that are recommended to be made within the next 10 years, based on the condition assessment of the infrastructure and the recommended life cycle activities. The immediate infrastructure requirement identified for the municipality is intended to address those assets that are currently rated as poor or expected to be rated as poor during the next ten years (due to deterioration caused by usage, weather, etc.).
Sustaining life cycle requirements	The sustainable life cycle requirement of an asset is the total of its life cycle costs divided by its estimated useful life. The sustainable life cycle requirement represents the amount of funding that should be committed to the municipality's infrastructure on an annual basis in order to fully fund the recommended life cycle activities.
Ontario Municipal Partnership Fund	The Ontario Municipal Property Fund (OMPF) is the primary Provincial mechanism for the flowing of operational grants to municipalities. OMPF funding is intended to assist municipalities that have limited property assessment, increased operating costs as a result of being northern or rural municipalities and/or are facing challenging fiscal circumstances.
Municipal Infrastructure Investment Initiative	The Municipal Infrastructure Investment Initiative (MIII) is a Provincial program designed to assist municipalities with critical road, bridge water and wastewater projects, with funding targeted to municipalities that would be unable to undertake priority projects without provincial support. While funding is available under MIII, the asset management plan does not consider any senior government grants other than those that have been secured as at the date of the asset management plan.

Glossary of Terms

Anticipated asset life cycle	The anticipated asset life cycle is the estimated productive useful life of an asset or infrastructure component. At the end of the anticipate asset life cycle, the municipality will be required to replace the asset in question, either through acquisition or reconstruction.
Integration opportunities	Integration opportunities represent potential groupings of different assets into a single project. For example, roads capital projects are often integrated with water, wastewater and storm sewer replacements given that these systems are underneath (and accessed through) municipal roads.
Rehabilitation and replacement criteria	Rehabilitation and replacement criteria are the factors considered by the municipality when consider when to undertake certain asset management activities.
Rehabilitation and replacement strategies	Rehabilitation and replacement strategies represent activities that are intended to maintain the condition and performance of the municipality's infrastructure. Rehabilitation and replacement strategies are synonymous with asset management activities.
Life cycle consequences	Life cycle consequences represent the expected outcomes in the event that the municipality does not undertake the recommended asset management activities during the recommended timeframes. Life cycle consequences can included but are not limited to deterioration of the physical condition of the asset, a reduction in the outputs and service potential of the assets, increased operating costs, higher costs for subsequent asset management activities than would otherwise have been incurred had the municipality undertaken the recommended asset management activities and/or a reduction in the estimated useful life of the asset.
Integrated asset priorities	Where different assets can be integrated into capital projects, the integrated asset priorities determine the basis for selecting and prioritizing capital projects. For example, a municipality with a water and wastewater system that is in poor condition may prioritize road construction projects based on the condition of the underlying water and wastewater system.

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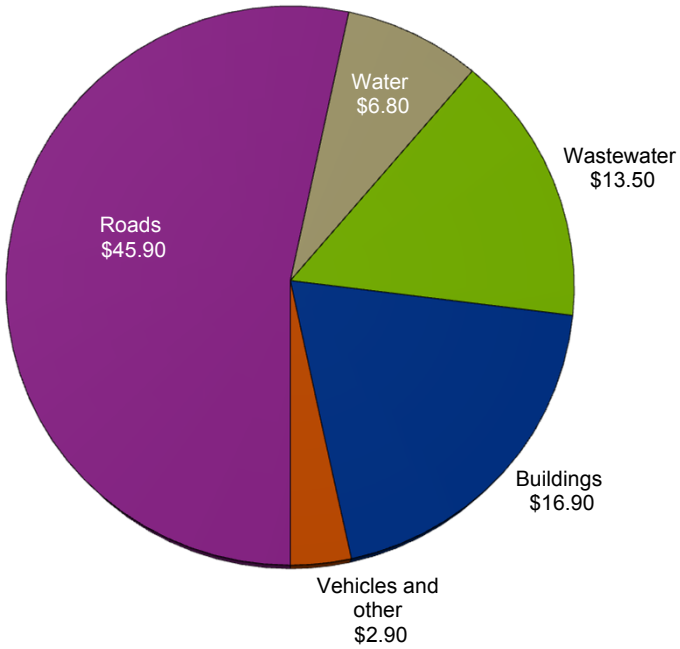
The development of an asset management plan has been identified as a pre-requisite for the receipt of funding from the Province of Ontario (the 'Province') under the Municipal Infrastructure Investment Initiative ('MIII') and as such, represents an important first step in obtaining financing for necessary 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

Infrastructure represents a major investment on the part of the Municipality of Temagami (the 'Municipality'), with the estimated replacement cost of its assets – roads, bridges, buildings, vehicles, equipment and pipes – amounting to more than $86 million, or $105,000 per resident. In addition to the cost of replacing its assets, the Municipality is also required to repair and rehabilitate its infrastructure over its entire useful life, with the cost of these life cycle activities for linear infrastructure (roads and pipes) amounting to $129 million, or $105,000 per household.

While the amounts of the Municipality's replacement and life cycle costs are significant, the real pressure from the perspective of its infrastructure comes from its current condition. Condition analysis conducted as part of the asset management planning process indicates that a significant proportion of the Municipality's infrastructure is either in fair or poor condition. Addressing the current state of the Municipality's infrastructure, which will deteriorate further if immediate maintenance isn't performed, is expected to cost approximately $25 million over the next ten years, $18 million of which relates to the Municipality's road network and $2.3 million relating to the Municipality's wastewater lagoons (which has been identified as a priority infrastructure project).

Replacement value by type of asset (in millions)



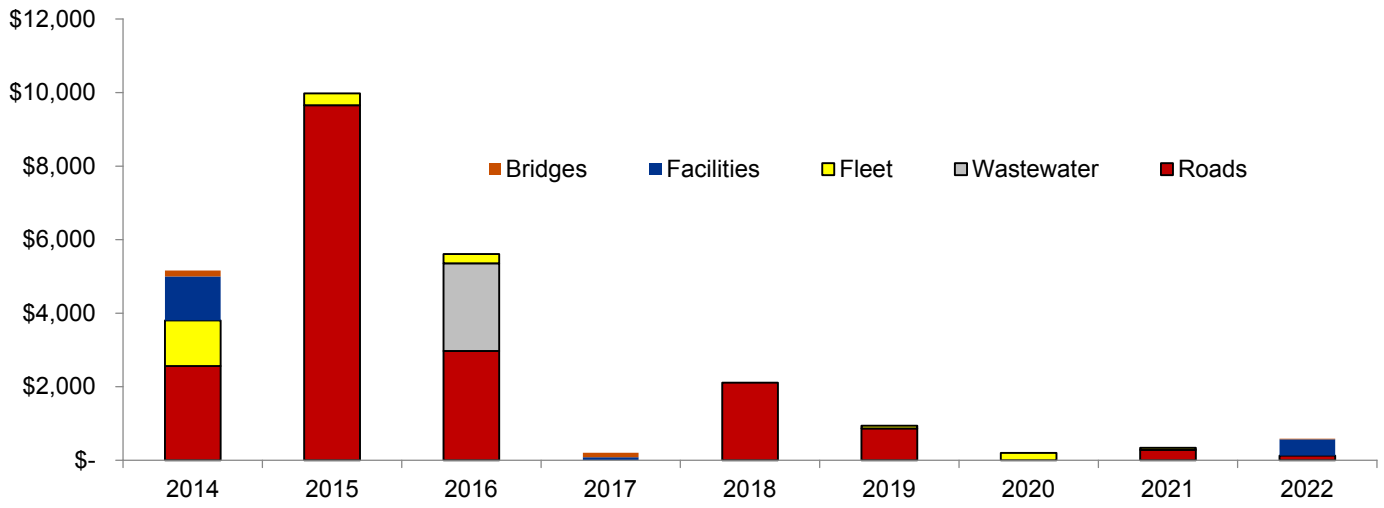
The high cost of future infrastructure investments reflects the declining state of the Municipality's assets, with a sizeable portion of assets rated as either poor or fair. Details of the Municipality's infrastructure condition assessment and identified capital investment requirements over the next ten years are provided on the following page.

Executive Summary

Condition assessment results by infrastructure component

Infrastructure	Condition Assessment		
	Good	Fair	Poor
Roads	62%	38%	–
Water mains	100%	–	–
Wastewater mains	100%	–	–
Bridges and culverts	33%	33%	34%
Buildings	76%	10%	14%
Vehicles	29%	33%	38%

Projected future infrastructure investment requirements (in millions)



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Asset management strategies

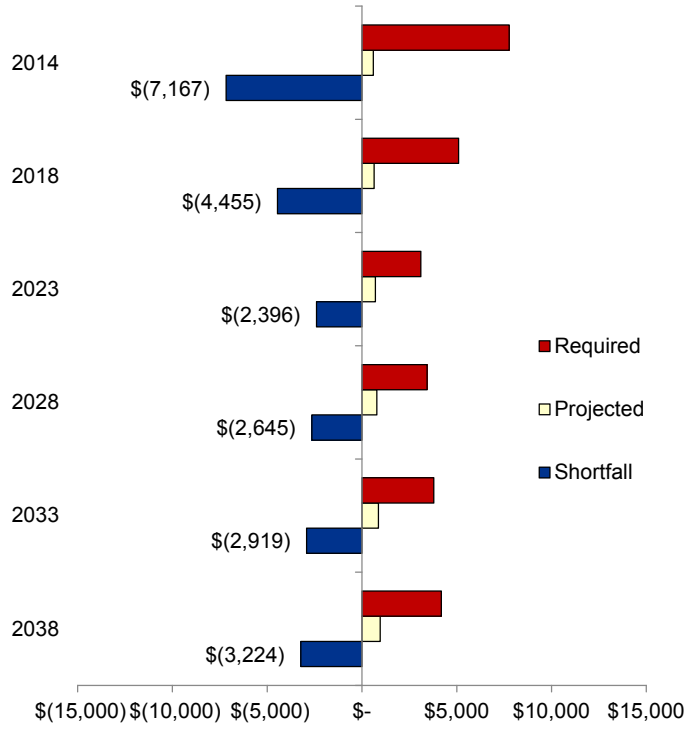
As required under MIII, this report identifies the required asset management strategies for the Municipality based on the types of infrastructure maintained as well as its current condition. As noted earlier, the Municipality would be required to spend an average of $2.5 million per year over the next ten years in order to address the current issues identified with its infrastructure. While this would allow the Municipality to meet its immediate infrastructure investment needs, it does not allow for ongoing maintenance, rehabilitation and replacement of its infrastructure, the cost of which amounts to an additional $2.6 million, bringing the Municipality's total infrastructure financing requirement to $4.9 million per year. In comparison, the Municipality is budgeted to $584,000 on capital expenditures not funded through grants or prior years' surpluses. Clearly, it is unable to address the full spectre of its infrastructure needs, resulting in ongoing annual infrastructure deficits.

In light of the significant gap between its infrastructure financing requirement and its capacity to raise revenues for capital purposes, the Municipality will be required to prioritize its investments. For the purposes of the asset management plan, three different categories have been identified:

- **Priority 1** – consists of infrastructure investments required within the next five years , investments that qualify for grants and immediate investment needs stemming from new legislation or regulation, public health or safety concerns or other issues
- **Priority 2** – includes infrastructure investments required within six to ten years and other lower priority infrastructure
- **Priority 3** – representing the lowest class of investment priority, this category includes infrastructure with no investment requirement identified within the next ten years, discontinued infrastructure and other lower priority infrastructure

Sludge removal from the Township's North Lagoon system (wastewater) has been identified as a key infrastructure investment priority ($2.538 million), and is reflected in the asset management plan.

Calculated annual infrastructure funding shortfalls (in thousands)



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Financing strategy

While the Municipality 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 Municipality is proposing the following measures intended to increase funding for capital requirements:

- Permanently protecting the current level of capital expenditures so as to provide a consistent stream of funding into the future;
- Introducing a five year capital levy that would see the total levy increase by 2%, with the new revenue allocated to capital purposes (i.e. not for operations). The capital levy would add approximately $70,000 per year to existing capital funding ($340,000 in total over the next five years), representing a 58% increase in capital spending.
- Exploring the continued use of debt as a means of funding infrastructure requirements, including the adoption of a program whereby a fixed percentage of capital expenditures are financed through debt; and
- Upon the repayment of existing indebtedness, redirecting debt servicing costs to capital expenditures, capital reserves or new debt for capital projects so as to preserve existing funding for capital purposes; and
- Continuing to pursue grant programs provided by senior levels of government.

The issue of affordability

When considering the Municipality's ability to fund its capital requirements and its entitlement for grants, there needs to be a recognition of the limited ability of the Municipality to finance its capital needs due to issues surrounding affordability. In addition to the affordability considerations developed by the Province under the revised OMPF model, it is also important to remember that:

- The Municipality's population has decreased at a significantly faster rate than other communities and the Province as a whole. While the Province's total population increased by 19.5% between 1996 and 2011, the Municipality's population fell by 20% over the same period.
- The Municipality's residents have a higher degree of reliance on pension income (i.e. fixed income) as opposed to other communities. Overall, 29% of total reported personal income in the Municipality is derived from pensions, as opposed to the Provincial average of 14%.

The consequences of these trends are clear – those residents that remain within the Municipality are increasingly limited in their ability to afford ongoing taxation increases given the higher reliance on fixed income sources.

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About this plan

The Municipality's asset management plan 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 Municipal staff as well as external financial and engineering advisors paid for through the MIII.

In completing the asset management plan for the Municipality:

- Accepted industry best practices were used for the development of the plan components, including the condition assessments, identification of life cycle requirements and estimated costs;
- The asset management plan was reviewed by Municipal council prior to adoption;
- The asset management plan was compared to the requirements under MIII to ensure compliance; and
- Expressions of interest submitted to date have been based on the priorities identified in the asset management plan.

We would like to acknowledge the cooperation of Municipal staff in the preparation of this report.

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Asset Management Planning
for the Municipality of Temagami

Chapter I
Introduction

Overview of the Asset Management Plan

Asset management planning defined

Asset management planning is the process of making the best possible decisions regarding the acquisition, operating, maintaining, renewing, replacing and disposing of infrastructure assets. The objective of an asset management plan is to maximize benefits, manage risk and provide satisfactory levels of service to the public in a sustainable manner. In order to be effective, an asset management plan needs to be based on a thorough understanding of the characteristics and condition of infrastructure assets, as well as the service levels expected from them. Recognizing that funding for infrastructure acquisition and maintenance is often limited, a key element of an asset management plan is the setting of strategic priorities to optimize decision-making as to when and how to proceed with investments. The ultimate success or failure of an asset management plan is dependent on the associated financing strategy, which will identify and secure the funds necessary for asset management activities and allow the Municipality to move from planning to execution.

The purpose of the asset management plan

The asset management plan outlines the Municipality's planned approach for the acquisition and maintenance of its infrastructure, which in turn allows the Municipality to meet its stated mission and mandate by supporting the delivery of services to its residents. In achieving this objective, the asset management plan:

- Provides elected officials, Municipal staff, funding agencies, community stakeholders and residents with an indication of the Municipality's investment in infrastructure and its current condition;
- Outlines the total financial requirement associated with the management of this infrastructure investment, based on recommended asset management practices that encompass the total life cycle of the assets;
- Prioritizes the Municipality's infrastructure needs, recognizing that the scope of the financial requirement is beyond the capabilities of the Municipality and that some form of prioritization is required; and
- Presents a financial strategy that outlines how the Municipality intends to meet its infrastructure requirements.

It is important to recognize that the asset management plan is just that – a plan. The asset management plan (which has been prepared for the purposes of meeting the requirements of the Municipal Infrastructure Investment Initiative) does not represent a formal, multi-year budget for the Municipality. The approval of operating and capital budgets is undertaken as part of the Municipality's overall annual budget process. Accordingly, the financial performance and priorities outlined in the asset management plan are subject to change based on future decisions of Council with respect to operating and capital costs, taxation levels and changes to regulatory requirements or the condition of the Municipality's infrastructure.

Scope of the Asset Management Plan

The asset management plan encompasses the following components of the Municipality's infrastructure:

Transportation Infrastructure	Water and Wastewater Infrastructure	Other Infrastructure
• Roads • Bridges and culverts • Streetlights • Storm sewers	• Treatment facilities • Water distribution system • Wastewater collection system	• Vehicles • Facilities

For the purposes of developing the asset management plan, a 25-year planning horizon was considered, although the analysis includes a discussion of required activities over the entire life cycle of the Municipality's infrastructure. It is expected that the Municipality will update its asset management plan every four years (to coincide with Council elections) or earlier in the event of a major change in circumstances, which could include:

- New funding programs for infrastructure
- Unforeseen failure of a significant infrastructure component
- Regulatory changes that have a significant impact on infrastructure requirements
- Changes to the Municipality's economic or demographic profile (positive or negative), which would impact on the nature and service level of its infrastructure

Methodology

The development of the Municipality's asset management plan involved the following major worksteps.

Workstep	Report Section
1. Information concerning the Municipality's tangible capital assets was reviewed and summarized to provide a preliminary inventory of assets, acquisition year, remaining useful life and historical cost.	Chapter II
2. A condition assessment of the Municipality's infrastructure was developed based on a review of previously commissioned assessments, the age and estimated remaining useful life of the infrastructure and engineering inspections of certain components.	Chapter II
3. Asset management strategies for each component of the Municipality's infrastructure were developed to provide an indication as to the recommended course of action for infrastructure procurement, maintenance and replacement/rehabilitation over the estimated useful life of the infrastructure component. As part of the development of the asset management strategies, cost estimates were prepared for the recommended activities.	Chapter IV
4. Based on the asset management strategies (which provide an indication as to the cost of the recommended activities) and the condition assessment (which provides an indication as to the timing of the recommended activities), an unencumbered financial projection was developed that outlined the overall cost of recommended asset management strategies assuming that the Municipality was to undertake all of the recommended activities when required (i.e. assuming sufficient funds were available for all required infrastructure maintenance and replacement). Consistent with the provisions of MIII, no grants were considered in the preparation of the unencumbered financial projection.	Chapter IV
5. Recognizing that the overall financial requirement associated with the recommended asset management strategies is unaffordable for the Municipality, the required asset management activities were prioritized based on the potential risk of failure (determined by the condition assessment), the potential impact on residents and other stakeholders and other considerations.	Chapter IV
6. A second set of financial projections was developed based on the resources available to the Municipality to support its asset management activities, including funding from taxation and user fees. Consistent with the provisions of MIII, no grants were considered in the preparation of the financial projections.	Chapter IV

The development of the asset management plan involved input from the following parties:

- Council and staff of the Municipality
- KPMG LLP, financial advisors to the Municipality
- exp Services Inc., engineering advisors to the Municipality

Evaluating and Improving the Asset Management Plan

The asset management plan outlined in this report represents a forecast of the Municipality's infrastructure-related activities under a series of assumptions that are documented within the plan. The asset management plan does not represent a formal, multi-year budget for infrastructure acquisition and maintenance activities but rather a long-term strategy intended to guide future decisions of the Municipality and its elected officials and staff, recognizing that the approval of operating and capital budgets is undertaken as part of the Municipality's overall annual budgeting process.

In order to evaluate and improve the asset management plan, the Municipality plans to undertake the following actions:

Action Item	Frequency
1. Updating of infrastructure priorities based on: • Ongoing condition assessments (e.g. bi-annual bridge inspections) • Visual inspection by municipal personnel • Identified failures or unanticipated deterioration of infrastructure components • Analysis of performance indicators	Annually
2. Adjustment of asset management plan for changes in financial resources, including new or discontinued grant programs, changes to capital component of municipal levy, etc.	Every four years
3. Comparison of actual service level indicators to planned service level indicators and identification of significant variances (positive or negative)	Annually

Restrictions

This report is based on information and documentation that was made available to KPMG at the date of this report. KPMG has not audited nor otherwise attempted to independently verify the information provided unless otherwise indicated. Should additional information be provided to KPMG after the issuance of this report, KPMG reserves the right (but will be under no obligation) to review this information and adjust its comments accordingly.

Pursuant to the terms of our engagement, it is understood and agreed that all decisions in connection with the implementation of advice and recommendations as provided by KPMG during the course of this engagement shall be the responsibility of, and made by, the Municipality of Temagami. KPMG has not and will not perform management functions or make management decisions for the Municipality of Temagami.

This report includes or makes reference to future oriented financial information. Readers are cautioned that since these financial projections are based on assumptions regarding future events, actual results will vary from the information presented even if the hypotheses occur, and the variations may be material.

Comments in this report are not intended, nor should they be interpreted to be, legal advice or opinion.

KPMG has no present or contemplated interest in the Municipality of Temagami nor are we an insider or associate of the Municipality of Temagami or its management team. Our fees for this engagement are not contingent upon our findings or any other event. Accordingly, we believe we are independent of the Municipality of Temagami and are acting objectively.

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Asset Management Planning
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Chapter II
State of Local Infrastructure

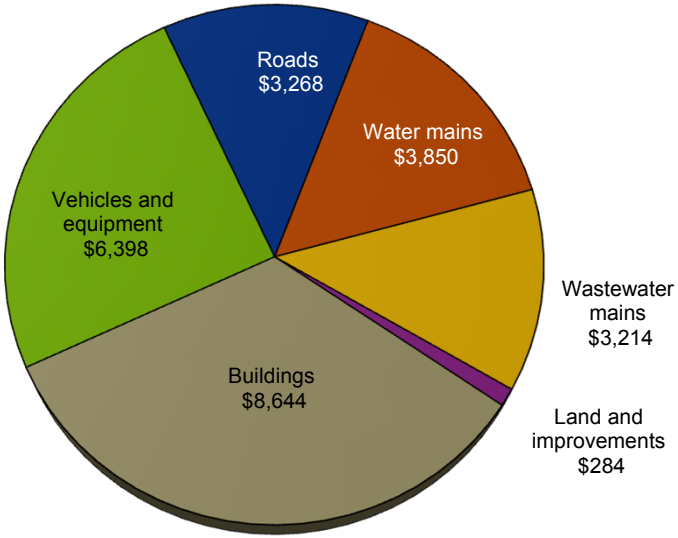
Overview of the Municipality's Infrastructure

At December 31, 2013, the Municipality reported a total investment of $25.7 million in tangible capital assets ('TCA') at historical cost. This equates to an average investment of $20,000 per household, or $30,000 per full-time resident.

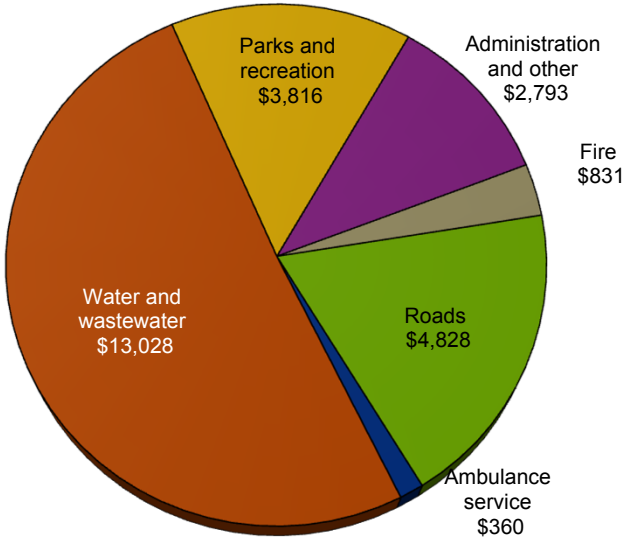
With a historical cost of $8.6 million, buildings represent the largest infrastructure investment by historical cost, accounting for 32% of total tangible capital assets. Linear infrastructure assets (roads, water and wastewater mains) collectively amount to $10.3 million, or 42% of total capital assets.

From a functional perspective, the Municipality's water and wastewater system represents the largest investment, amounting to $13.0 million or 52% of total capital assets. Roads ($4.8 million), parks and recreation ($3.8 million) and general government ($2.7 million)

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



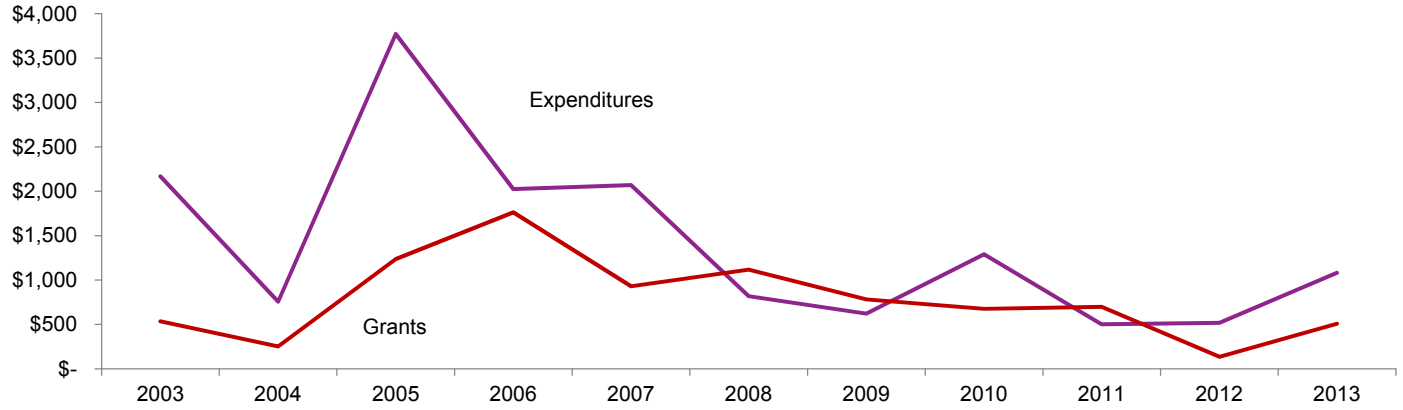
Tangible capital assets by use (historical cost, in thousands)



Overview of the Municipality's Infrastructure

Over the last 10 years, the Municipality's investment in its infrastructure has totaled $14.5 million, with Federal and Provincial capital grants amounting to approximately $8.1 million over the same period. As noted below, the Municipality's investment in infrastructure has traditionally been closely tied to grant revenues.

Capital expenditures and grants (in thousands)



Since 2003, environmental services infrastructure has represented the largest area of investment for the Municipality, amounting to $5.9 million or 51% of total capital spending. Transportation infrastructure represented the next largest component of investment, totalling $3.5 million or 22% of total capital expenditures since 2003.

Capital expenditures by program

(in thousands of dollars)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
Transportation	59	135	37	520	645	50	69	1,143	492	61	315	3,526
Environmental services	181	373	3,206	712	279	632	117	–	–	159	271	5,930
Parks and recreation	1,669	69	24	30	37	26	45	114	8	140	–	2,162
Fire	125	89	436	45	33	24	19	–	–	19	39	829
Administration and other	133	90	69	716	1,074	85	372	33	–	137	456	3,165
Total	2,167	756	3,772	2,023	2,068	817	622	1,290	500	516	1,081	15,612

Overview of the Municipality's Infrastructure

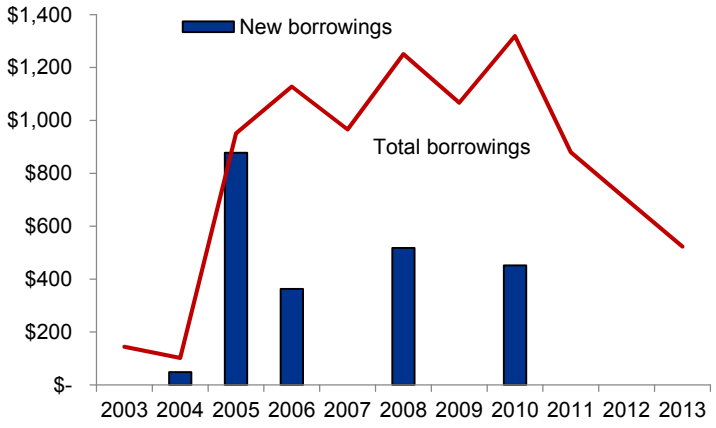
In order to fund its capital investments, the Municipality has relied on a combination of grants, long-term debt, contributions from reserves and reserve funds and taxation and user fee revenues, with grants and long-term debt funding 56% and 16% of capital expenditures, respectively, over the last ten years.

Capital expenditures and funding

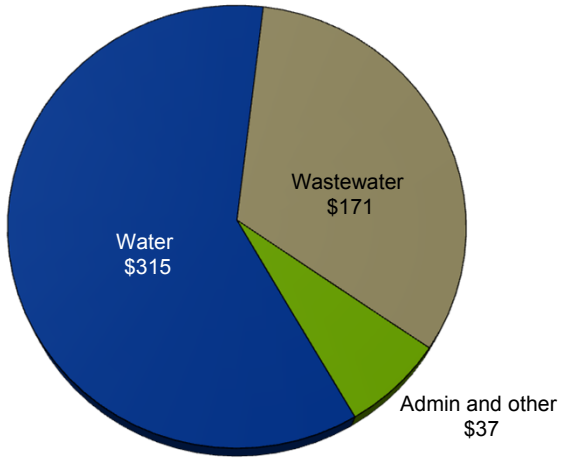
(in thousands of dollars)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
Total capital expenditures	2,167	756	3,772	2,023	2,068	817	622	1,290	500	516	1,081	15,612
Grants received	535	252	1,236	1,763	930	1,117	781	676	697	135	508	8,630
Local financing requirement	1,632	504	2,536	260	1,138	(300)	(159)	614	(197)	381	573	6,409
Long-term debt issued	–	48	878	363	–	518	–	452	–	–	–	2,259
Taxation, user fee and reserve funding	1,632	456	1,658	(103)	1,138	(818)	(159)	162	(197)	381	573	4,723

As at December 31, 2013, the Municipality had a total of $523,000 in outstanding long-term debt, the majority of which related to water and wastewater infrastructure.

Long-term debt issued and year-end outstanding borrowings (in thousands)



Long-term debt outstanding by function (in thousands)



Historical, Replacement and Life Cycle Cost

For asset management purposes, the historical cost of the Municipality's infrastructure is arguably of limited value in that it reflects the cost at the date that the infrastructure investment was incurred, as opposed to what it would cost the Municipality to replace the infrastructure at the present time. While the use of replacement value is a more meaningful measure of the financial requirement associated with the Municipality's infrastructure (and is a required component for asset management plans under MIII), it is also of limited value in that it only considers the replacement cost at the end of the infrastructure's useful life and does not contemplate:

- The fact that certain components of the Municipality's infrastructure, such as roads, will not be fully replaced at the end of useful life but rather will be reconstructed; and
- Asset management activities that are required (by best practice) to be incurred prior to the end of the useful life of the Municipality's infrastructure.

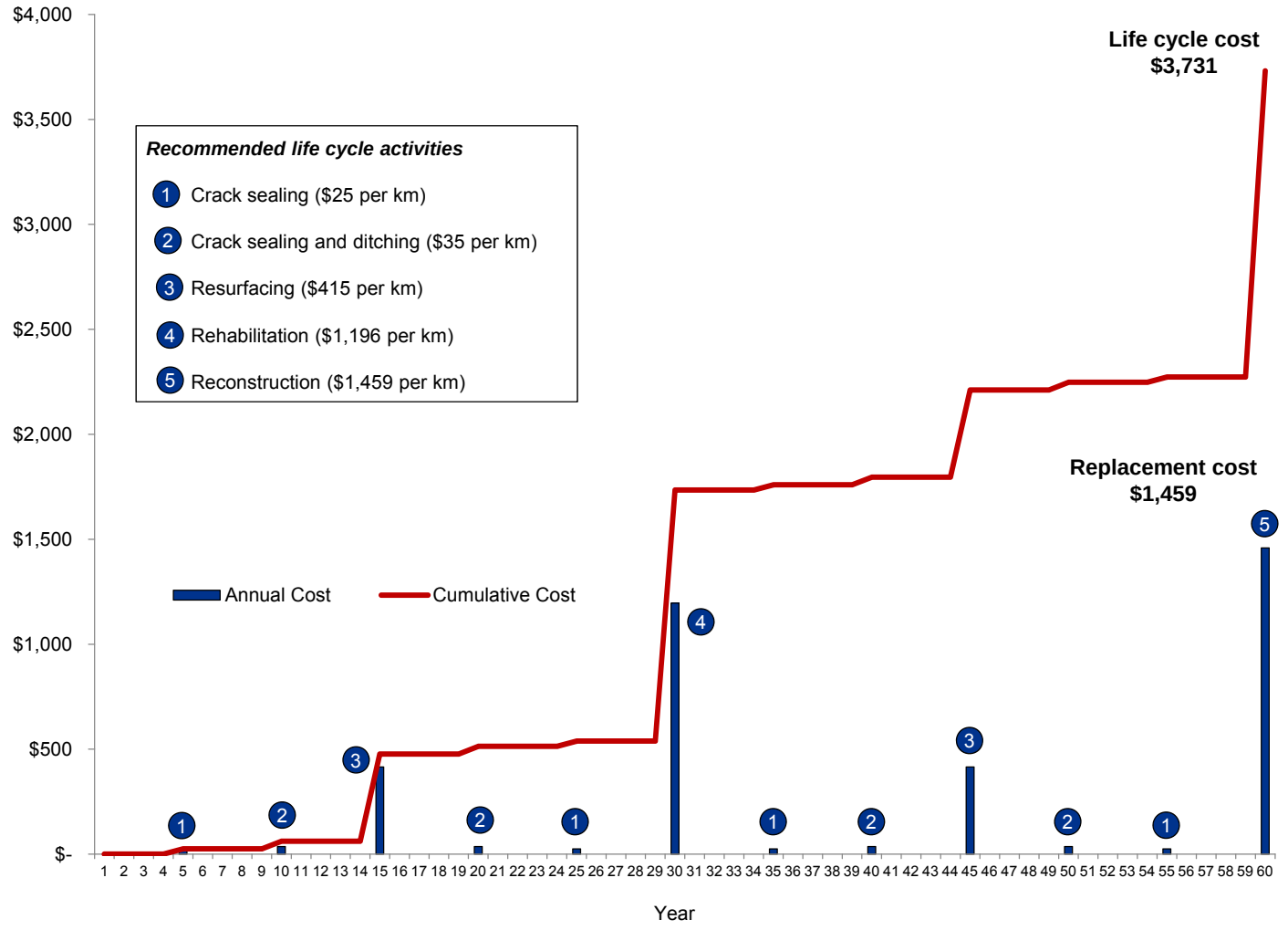
Accordingly, for the purposes of the Municipality's asset management plan, we have provided the following for each component of the Municipality's infrastructure:

- **Historical cost**, based on the Municipality's TCA data as reported in its 2012 financial information return
- **Replacement cost**, based on cost estimates prepared by the Municipality's engineering advisors. For the purposes of the asset management plan, replacement cost is defined as follows:
  - Roads – road reconstruction costs at the end of useful life, including necessary curbs, sidewalks, drainage (as appropriate based on the type of road)
  - Bridges and culverts – estimated reconstruction cost
  - Water and wastewater pipes – replacement costs at the end of useful life, including hydrants, valves, road reinstatement and service to the property line
  - Vehicles – estimated purchase price
  - Buildings – estimated reconstruction cost
- **Life cycle costs**, based on cost estimates prepared by the Municipality's engineering advisors. Life cycle costs encompass the cost of all recommended maintenance activities associated with a component of the Municipality's infrastructure prior to the end of useful life. The nature of life cycle costs will vary depending on the type of infrastructure in question, with certain assets requiring little life cycle activities prior to the end of useful life while others require regularly scheduled maintenance activities. For the purpose of the Municipality's asset management plan, life cycle costs have been provided for linear infrastructure (roads, water and wastewater mains).

  We have included on the following pages depictions of the life cycle requirements associated with various infrastructure types, including the difference between replacement cost and life cycle cost.

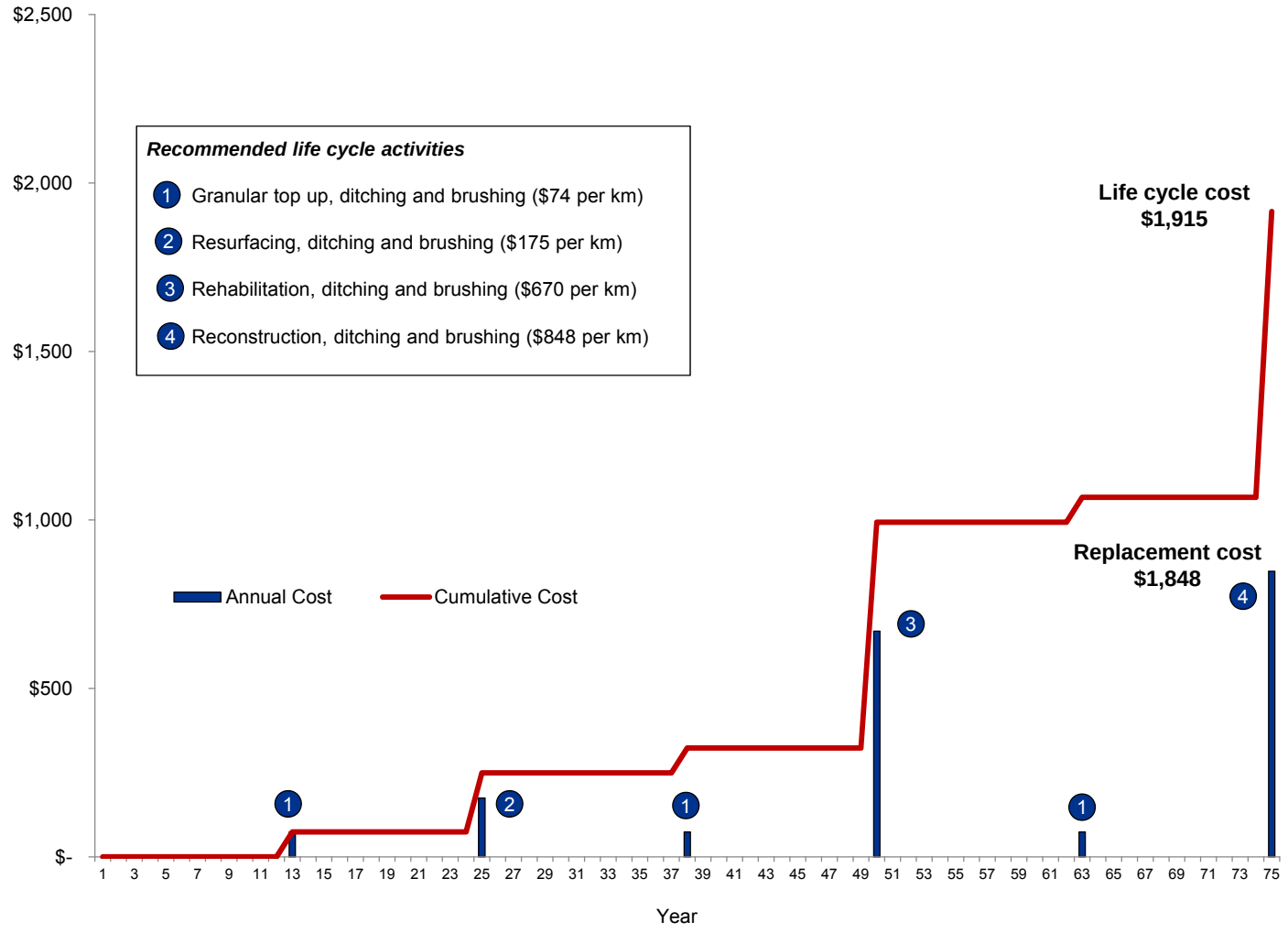
Historical, Replacement and Life Cycle Cost

Life cycle costing profile – paved rural collector road (7.0m lane) (in thousands)



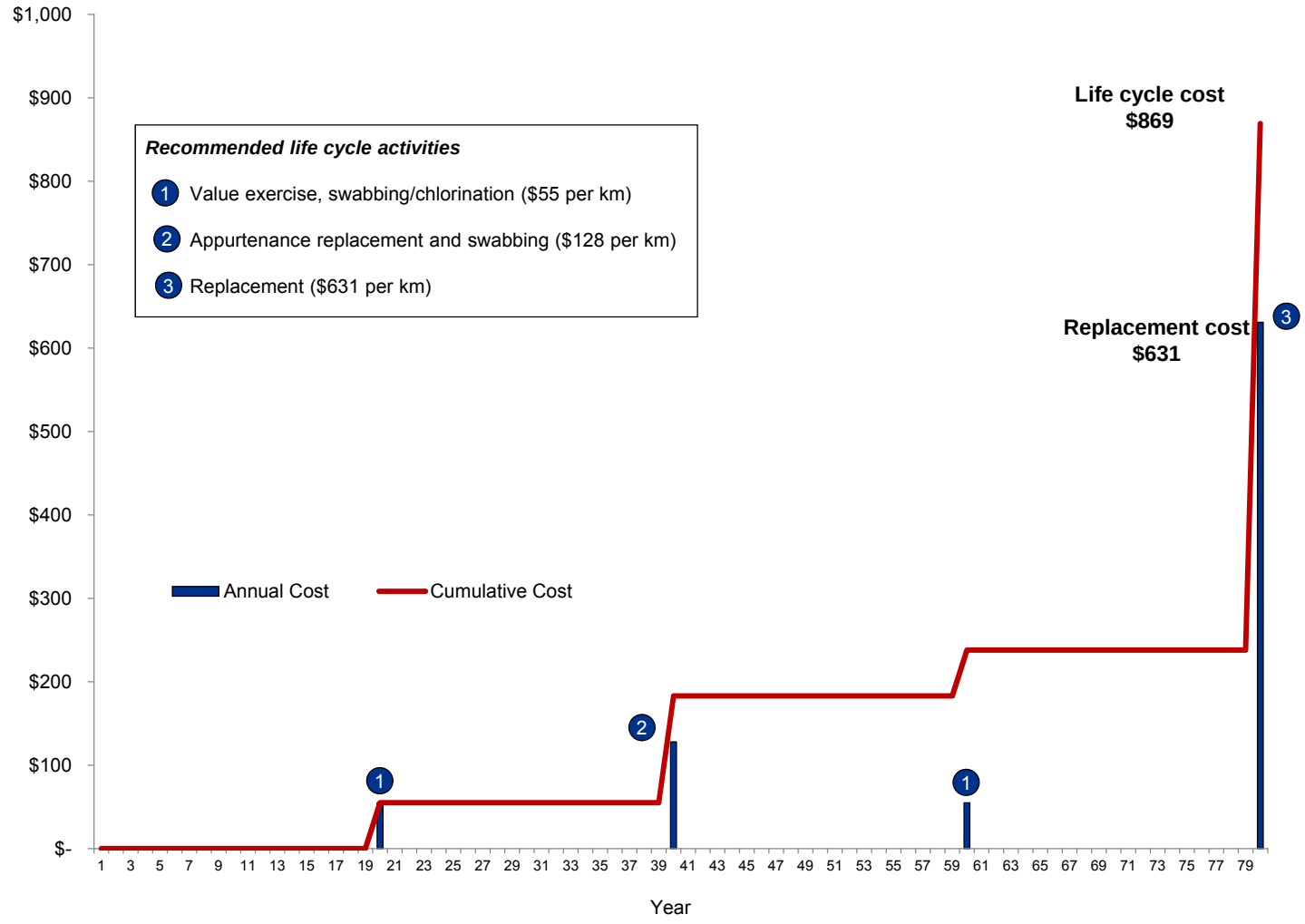
Historical, Replacement and Life Cycle Cost

Life cycle costing profile – granular rural road (6.5m lane) (in thousands)



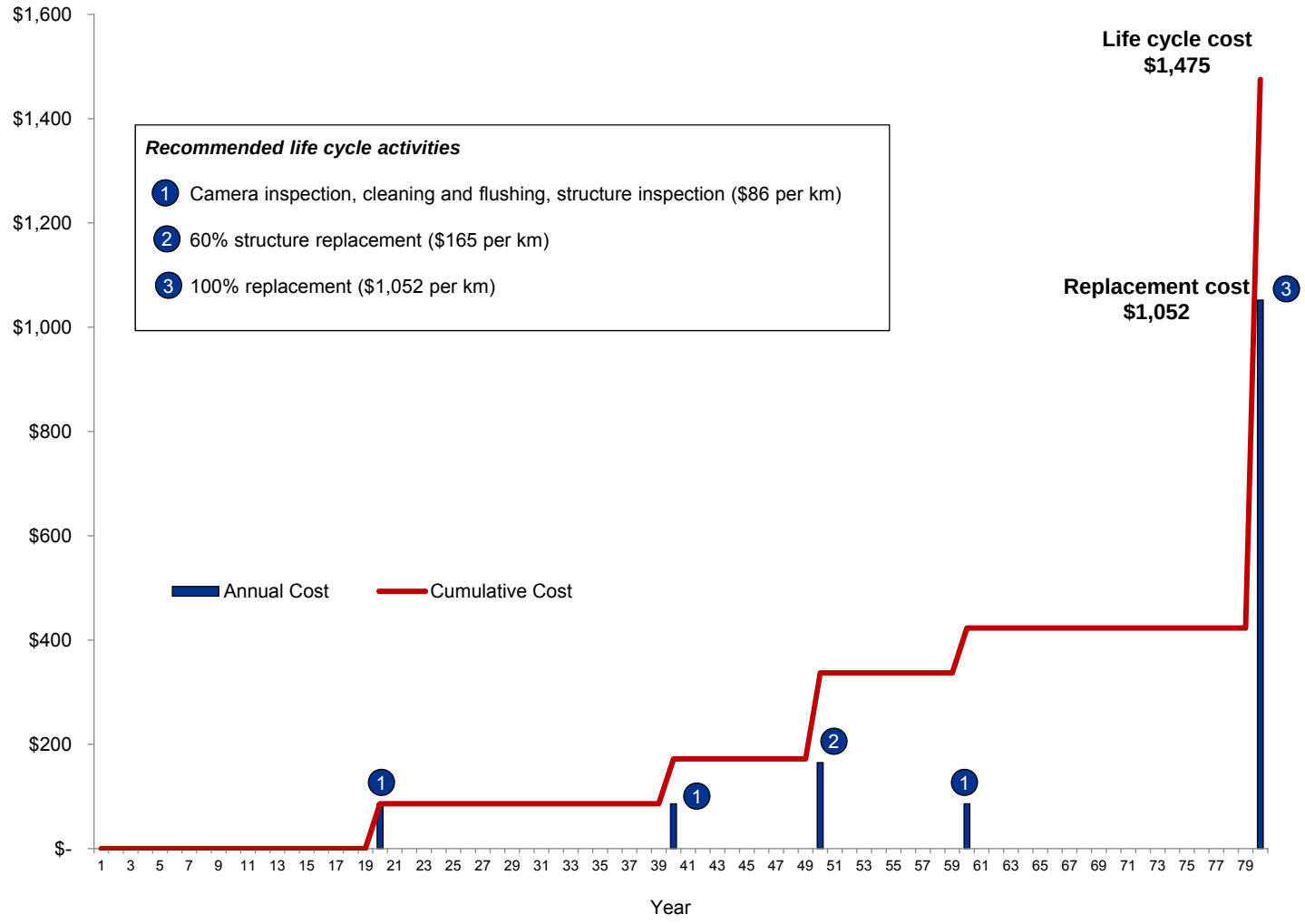
Historical, Replacement and Life Cycle Cost

Life cycle costing profile – urban water PVC distribution main (100 mm) (in thousands)



Historical, Replacement and Life Cycle Cost

Life cycle costing profile – sanitary sewer collection (150mm to 300mm) (in thousands)



Historical, Replacement and Life Cycle Cost

The current replacement value of the Municipality's infrastructure (expressed in 2013 funds) is estimated to be in the order of $86.0 million, the majority of which ($45.9 million or 52%) relates to the Municipality's road network. Overall, the replacement value of the Municipality's infrastructure amounts to approximately $105,000 per full-time resident or $70,000 per household, or 4 times the historical cost of infrastructure.

The total life cycle cost associated with the Municipality's linear infrastructure (roads, water and wastewater mains) is just under $129 million, with roads representing the largest category of life cycle costs ($101 million or 78% of total life cycle costs). On average, the Municipality's life cycle costs for its linear infrastructure is $156,000 per full-time resident or $105,000 per household.

Historical, replacement and life cycle costs by component

	Quantity	Historical Cost	Replacement Cost	Life Cycle Cost
Roads – paved and surface treated	10,325 m	$383,517	$15,064,412	$38,526,292
Roads – gravel	55,525 m	$1,359,425	$30,816,542	$62,608,936
Drainage works		$1,212,416	*Included above*	
Water distribution network – South	6,500 m	$2,068,395	$4,362,215	$5,910,398
Water distribution network – North	3,600 m	$1,145,572	$2,415,996	$3,273,451
Wastewater collection network – South	7,800 m	$2,481,755	$8,206,263	$11,503,947
Wastewater collection network – North	4,300 m	$1,368,147	$4,523,966	$6,341,920
Grinder pumps (South only)	172	$527,373	$774,000	$774,000
Total linear infrastructure		$10,546,600	$66,163,394	$128,938,944
Bridges and culverts	3	$312,544	$686,375	
Buildings, facilities and related equipment	21	$12,813,775	$16,480,938	
Docks	1	$443,368	$500,000	
Vehicles and heavy equipment	21	$1,257,181	$2,197,500	
Total in-scope infrastructure		$25,373,468	$86,028,207	
Land and land improvements		$283,916		
Total tangible capital assets		$25,657,384		

Condition Assessment

In order to assess the condition of the Municipality's infrastructure, which in turn determines the timing for asset management activities, different approaches were adopted depending on the type of infrastructure:

- **Roads** – condition assessments for roads (paved, surface treated and gravel) were determined based on a *Condition Rating* that ranked the Municipality's road network on a scale of 0.00 to 10.00 based on factors such as structural cracking, non-structural cracking, rutting and roughness.
- **Water and wastewater mains –** given the inability to directly observe underground infrastructure, condition assessments for water and wastewater mains were determined based on the estimated remaining useful life.
- **Bridges and large culverts** – condition assessments were based on the *Bridge Condition Index* as determined by the most recent bridge inspections conducted in accordance with the Ontario Structure Inspection Manual.
- **Facilities** – condition assessments for buildings were based on a *Facility Condition I*ndex that considered the level of required repairs to the various facility components (structure, mechanical, electrical and roof) as a percentage of its total replacement cost, based on a physical inspection of the Municipality's buildings and the estimated remaining useful life.
- **Vehicles and other assets** – condition assessments for the Municipality's fleet and other assets were determined based on the estimated remaining useful life.

In order to determine the allocation of the Municipality's infrastructure by condition category (good, fair, poor), the following benchmarks were utilized.

Condition assessment benchmarks

Infrastructure components	Basis of Assessment	Good	Fair	Poor
Roads	Condition rating	Greater than 6.00	4.00 to 6.00	Less than 4.00
Water and wastewater mains	Remaining useful life	Greater than 50%	10% to 50%	Less than 10%
Bridges and large culverts	Bridge condition index	Greater than 70	60 to 70	Less than 60
Facilities	Facility condition index	Less than 5%	5% to 10%	More than 10%
Vehicles and other assets	Remaining useful life	Greater than 50%	10% to 50%	Less than 10%

Condition Assessment

The results of the condition assessment indicate that with the exception of water and wastewater mains, a sizeable percentage of the Municipality's infrastructure is classified as being in either fair or poor condition.

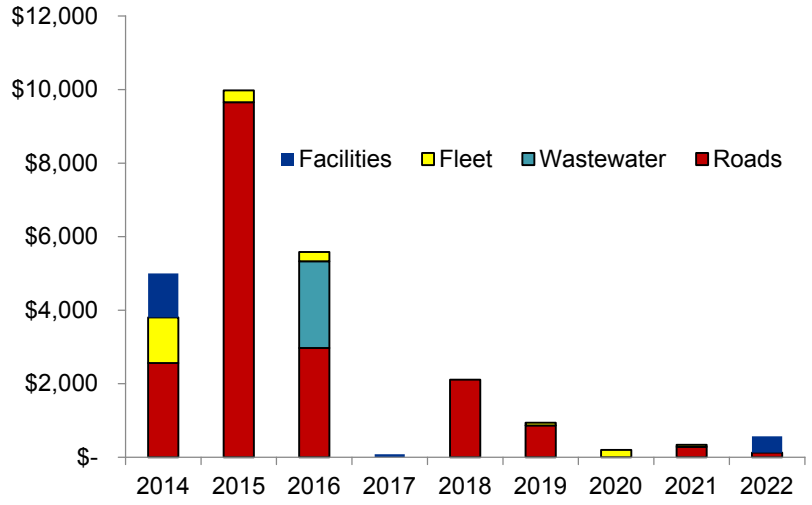
Condition assessment results by infrastructure component

Infrastructure	Condition Assessment		
	Good	Fair	Poor
Roads	62%	38%	–
Water mains	100%	–	–
Wastewater mains	100%	–	–
Bridges and culverts	33%	33%	34%
Buildings	76%	10%	14%
Vehicles	29%	33%	38%

As a result of the high proportion of the Municipality's infrastructure ranked as poor or fair, it faces an immediate infrastructure investment requirement of approximately $5.0 million, with an additional $20.0 million of capital investment requirements identified over the next ten years. Roads represents the largest category of infrastructure reinvestment requirement, amounting to $18.6 million over ten years. Sludge removal from the Municipality's North Lagoon is identified as a priority investment requirement, with an estimated cost of $2.358 million.

The Municipality's estimated infrastructure requirements are expressed in 2013 dollars and as such, will increase over time due to the inflation and other cost pressures.

Projected future infrastructure investment requirements (in thousands)



Data Verification and Condition Assessment Policies

On a go-forward basis, the following policies will govern the updating and verification of the condition assessment:

- Condition assessments for bridges will be conducted every two years in accordance with Provincial regulations, with the asset management plan updated accordingly
- Condition assessments for water and wastewater mains will be assessed periodically through the use of camera inspections, with a five year inspection cycle being the long-term target
- Condition assessments for facilities will be assess through an engineering/architectural inspection of the facilities periodically, with a ten year inspection cycle being the long-term target
- Condition assessments for other assets will be based on the percentage of remaining useful life in the absence of a third-party assessment of the assets. On an annual basis, the Municipality will review the useful lives and condition assessment criteria (good, fair, poor based on percentage of remaining life) and will adjust the asset management plan accordingly

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Chapter III
Desired Levels of Service

Performance Measures

The Municipality's asset management strategy is intended to maintain its infrastructure at a certain capacity and in doing so, allow it to meet its overall objectives with respect to service levels for its residents. Highlighted below are the key performance measures and service level targets for the major components of the Municipality's infrastructure, as well as an assessment of its current performance and the anticipated date for achieving the service level target.

Infrastructure Component	Performance Measure	Targeted Performance	Achievement Date
Roads	Compliance with Ontario Regulation 239/02 – Minimum Maintenance Standards for Municipal Highways	Full compliance	2014
Water	Days under boil water advisory	None	2014
	Response time for notices submitted in accordance with subsection 18(1) of SDWA	5 days	2014
	Number of water main breaks per 100 km	5.0	2017
Wastewater	Wastewater backups per 100 km	20.0	2017
	Percentage of wastewater flows bypassed	5.0%	2017
Vehicles	Operability	90%	2014
Facilities	Availability (percentage of planned operating hours)	99%	2014
	Compliance with Accessibility for Ontarians with Disability Act and Integrated Accessibility Standards	Full compliance	As per legislation

It is anticipated that the Municipality will monitor and report on its performance annually.

It is also important to recognize that in certain instances, a deviation from the Municipality's targeted service level may be the result of uncontrollable and unforeseen factors and any evaluation of the Municipality's performance should differentiate between controllable and uncontrollable events. For example, the availability of facilities (as a percentage of planned operating hours) could be impacted by weather conditions or power disruptions that may result in the closure of facilities but which are not caused by the Municipality or otherwise controllable. Absent some form of compensating strategy (such as standby power generators), these events may cause the Municipality to deviate from its targeted service levels.

The Impact of New Legislation and Regulation

From time to time, new legislation or regulations will be enacted that change minimum performance requirements for municipal infrastructure and by extension the performance measures outlined in the Municipality's asset management plan. At the present time, three major items of legislation and regulation have been identified as having the potential to impact on the Municipality's desired service levels and asset management plan:

- The *Accessibility for Ontarians with Disability Act* and the accompanying *Integration Accessibility Standards* may require the Municipality to alter components of its infrastructure to ensure accessibility for individuals with disabilities. The timeframe for compliance with the Act depends on both the nature of the requirement and the size of the municipality, with smaller communities generally provided with an extended period for compliance as compared to the Province or larger municipalities.
- The Province of Ontario has recently enacted revisions to *Ontario Regulation 239/02 – Minimum Maintenance Standards for Municipal Highways*. While the majority of these changes deal with winter maintenance activities (which are not included in the scope of the asset management plan), revisions have been made to inspection requirements for certain components of a municipal road network, which will impact on the Municipality's asset management activities in the future.
- It is anticipated that the Province of Ontario will introduce new legislation relating to wastewater treatment activities that are expected to increase the minimum performance standards, which may in turn require the Municipality to amend its existing performance measurement targets and/or introduce new targets.

On an annual basis, the Municipality will evaluate the impact of enacted legislation or regulation on its desired levels of service and will adjust its performance measures accordingly.

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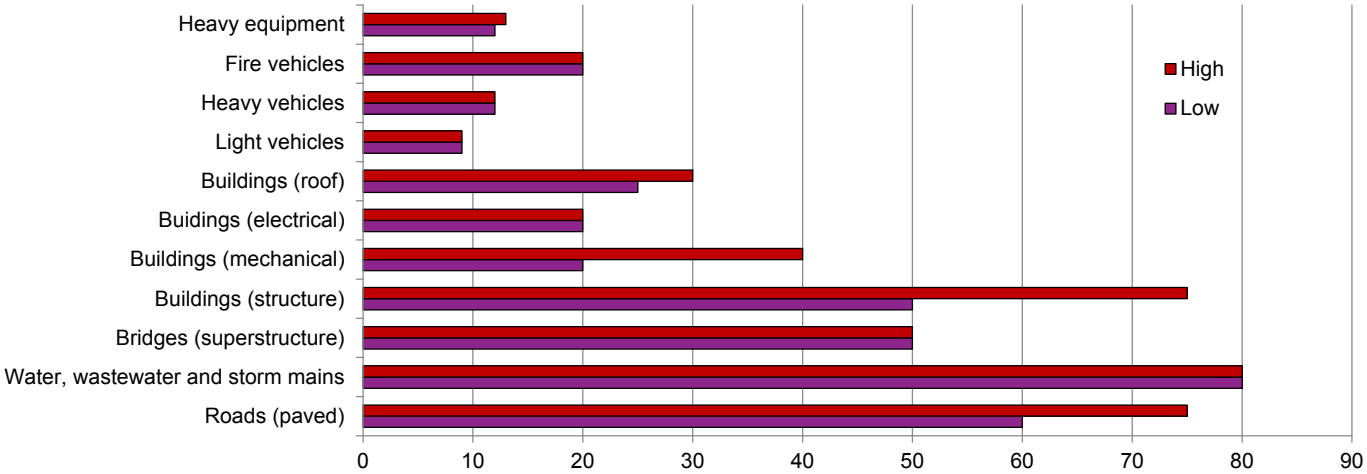
Chapter IV
Asset Management Strategy

Overview

For each significant component of the Municipality's infrastructure, asset management strategies have been developed that outline:

1. The expected life cycle period for each asset, which defines the period that the Municipality will be required to maintain its infrastructure and secure the necessary financing for maintenance and replacement activities. As noted below, there is considerable variability in the estimated life cycle periods of the Municipality's infrastructure.

Life cycles for municipal infrastructure (in years)



2. The extent to which asset management activities can be integrated with other assets, most commonly the integration of above ground and below ground infrastructure (roads, water, wastewater and storm sewer). The integration of different infrastructure components is a critical element of the Municipality's asset management plan given the staggering of the end of useful life for major assets.
3. Criteria and strategies for the replacement and rehabilitation of the assets.
4. Consequences of not undertaking the necessary asset management activities, particularly the impact on useful lives and overall costs.
5. The determination of priorities when considering integrated assets (e.g. roads and pipes).

Asset management strategies for each component are presented on the following pages.

Municipal Paved Road Systems

Anticipated asset life cycle	The life cycle of newly constructed pavement systems are dependent on several factors including the pavement design, material and construction quality, traffic volume, traffic loading, and environmental conditions. The service life can be approximated by the category of road: 60 years for pavement with curb, 60 years for pavement with open ditch, and 10 years for surface treatments.
Integration opportunities	Various other elements may be considered as integrated with paved roads. These include buried assets in the corridor: water sewers, storm sewers, hydro, telephone, natural gas, and cable. Other possible affected elements include traffic signals, street lighting, and sidewalks.
Rehabilitation and replacement criteria	To assess paved roads the Pavement Condition Index (PCI) is used. PCI is a numerical index between 0 and 10 and is based on a visual survey conducted, where 10 represents a new pavement in excellent condition and 0 an impassible pavement. If the PCI ranks at 5, resurfacing should be considered, if PCI ranges from 3 to 5, rehabilitation should be considered. In the case that the PCI falls below 3, reconstruction is a more effective option.
Rehabilitation and replacement strategies	Several different rehabilitation strategies can be implemented. The selection of the strategy is dependent on the following criteria: PCI index, road classification (arterial, collector, local), urban or rural, ditched or curbed, benefit/cost ratio. These strategies include: • Total reconstruction of pavement with 80mm to 120mm of hot mix asphalt (HMA) • Mill and resurface pavement with 50mm to 75mm of HMA • Strip and resurface pavement with 50mm to 75mm of HMA • Pulverize with underlying granular and surface with 50mm to 75mm of HMA • Mill and resurface patches of pavement with 50mm of HMA • Routing and crack sealing pavements
Life cycle consequences	Failure to fund timely pavement rehabilitation will result in a reduction in the pavement PCI. Pavement PCI's below 5 result in exponential increases in pavement rehabilitation costs. It also increases significantly road maintenance costs. Pavements identified by a PCI below 3 typically reflect decreases in level of service and increasing associated degrees of risk and liability.
Integrated asset priorities	The schedule of pavement rehabilitation is often planned in conjunction with underground utility rehabilitation works. Most commonly it is the rehabilitation of pavement systems that prompts the replacement of underground sewer and water services in the infrastructure is also in deteriorating condition and approaching its useful service life. The incorporation of other infrastructure rehabilitation may be done alongside Engineering & Public Works Department internally or with natural gas, hydro, and telephone utilities externally.

Municipal Granular Road Systems

Anticipated asset life cycle	The life cycle of newly placed gravel road systems are dependent on several factors including the material and construction quality, design, traffic volume, traffic loading, and environmental conditions. The service life can be approximated by the category of road: 60 years for earth with open ditch and 75 years for gravel with open ditch. Sufficient maintenance provided during the service life will help preserve conditions using such strategies as machine grading, ditching and brushing, and granular top up.
Integration opportunities	Various other elements may be considered as integrated with gravel roads. These include buried assets in the utility corridor: water sewers, storm sewers, hydro, telephone, natural gas, and cable.
Rehabilitation and replacement criteria	To assess gravel roads the Gravel Condition Index (GCI) is used. GCI is a numerical index between 0 and 10 and is based on a visual survey conducted, where 10 represents a newly constructed road in excellent condition and 0 an impassible roadway. If the GCI ranges from 3 to 5, rehabilitation should be considered. In the case that the GCI falls below 3, reconstruction is a more effective option.
Rehabilitation and replacement strategies	Several different rehabilitation strategies can be implemented. The selection of the strategy is dependent on the following criteria: GCI index, road classification (collector, local), urban or rural, benefit/cost ratio. In a rehabilitation scenario, the top 50 to 100 mm of gravel type “A” would be replaced. In the case of total reconstruction the work would include the replacement of the granular road base and the granular surface.
Life cycle consequences	The effects of gravel road rehabilitation that is insufficiently funded are reflected in the GCI index which as a result will typically fall below 6. The poor quality of the roadway will be reflected in rising reconstruction and maintenance costs. Roads which are identified by a GCI of 3 or lower typically show signs of a poor level of service increasing the associated degrees of risk and liability.
Integrated asset priorities	The schedule of road rehabilitation is often planned in conjunction with underground utility rehabilitation works. Most commonly it is the rehabilitation of gravel roads that prompts the replacement of underground utilities and sewer and water services if those services are deteriorating and approaching their useful service life.

Water Distribution Systems

Anticipated asset life cycle	The life cycle ranges from 30 to 100 years. Examining individual elements, the expected service life of a water plant or pump station varies from 30 to 50 years. Valve replacement typically occurs every 30 to 50 years. Similarly, the hydrant life cycle is predicted as 40 years and chambers as 50 years. For watermains the life cycle can be approximated between 50 and 100 years and 75 years for water storage. These values hold true under the assumption that the elements are properly maintained throughout their service lives.
Integration opportunities	The replacement of these components may either be implemented as part of other construction work or may be conducted as a standalone project. The replacement may be incorporated into resurfacing and road reconstruction work which could include the integration of other utilities (wastewater, telephone, hydro, cable, natural gas, etc). In the case that full road replacement is not intended, standalone replacement of watermains can be carried out using trench cut and repair.
Rehabilitation and replacement criteria	Several criteria used to evaluate and prioritize the watermain replacement schedules include: age, break history of the pipe, material type, size, surrounding soil conditions, pressure related issues, and hydrant spacing. In addition to these criteria other factors, such as the intent of future road rehabilitation, will modify the priority of the replacement schedule accordingly. Available historical data, which includes but is not limited to pipe failures and pipe break history, is used to aid in the replacement criteria. When a continued increase in maintenance costs reaches an uneconomical value, the replacement of the pipe is justified.
Rehabilitation and replacement strategies	The rehabilitation strategy is dependent on the current state of the pipe. It is difficult to assess the state of deterioration in buried services, as such, high pressure cleaning and videotaping of watermains may be instituted. Several different rehabilitation approaches can be taken and include full replacement, cleaning and relining, and potential pipe bursting. Cathodic protection, when used in conjunction with these strategies, prolongs the service life. The strategy is chosen based primarily on the available data including the age, size, material type, break history, and hydraulic requirements.
Life cycle consequences	The repercussions of unexpected failure will be disastrous. Due to unaccounted circumstances and unpredictable events, it is possible that some pipe materials with an expect service life of 100 years will require replacement earlier than expected, after only 30 years. In contrast, pipe materials with an expected life of 100 years may have the service life extended by an additional 50 years, with timely maintenance and rehabilitation.
Integrated asset priorities	Replacement of deteriorating watermains is carried out based on the associated level of risk. The sequence in which rehabilitation or replacement is carried out is reliant on the priority of the watermain and the impact of disruption to service. High priority watermains include those where fire protection, water quality, and service disruption will results in water loss and collateral damage. Typically the integration of road rehabilitation with watermain replacement will increase the priority of the project. The project may also incorporate utilities such as wastewater, hydro, telephone, cable and gas.

Wastewater Collection Systems

Anticipated asset life cycle	The life cycle ranges from 15 to 100 years. Wastewater plants and sewage pump stations vary from 30 to 50 years. Examining individual elements, the expected service life of wastewater plant equipment, pumps, blowers, and SCADA systems ranges from 15 to 50 years. A manhole life cycle is predicted to be between 30 to 75 years and wastewater trunks between 50 to 100 years. These values hold true under the assumption that the elements are properly maintained throughout their service lives.
Integration opportunities	The replacement of these components may either be implemented as part of other construction work or may be conducted as a standalone project. The replacement may be incorporated into resurfacing and road reconstruction work which could include the integration of other utilities (wastewater, telephone, hydro, cable, natural gas, etc). In the case that full road replacement is not intended, standalone replacement of sanitary trunk can be carried out using trench cut and repair.
Rehabilitation and replacement criteria	The assessment of the replacement schedule is determined primarily through conducting a CCTV inspection. The results of the inspection will be evaluated to estimate the degree of deterioration of the infrastructure. Included in the assessment are other criteria such as the material type, visible local collapses, upsizing requirements, and synchronization with roads rehabilitation programs.
Rehabilitation and replacement strategies	The rehabilitation strategy is dependent on the assessed condition rating of the infrastructure. The optimal rehabilitation method is determined by assigning and examining the condition rating of the pipe. Most commonly the selected strategy is replacement of collapsing and deteriorated pipe. For localized damage, other practices may be instituted which include: spot repair, joint sealing, and Cured in Place Pipe (CIPP).
Life cycle consequences	The process of degradation in sanitary sewers is similar to that of storm sewers. The repercussions of failure in sanitary sewers are considerably more substantial. Structural deterioration may lead to infiltration of ground water into the system which results in an increased volume of sewage directed to waste water treatment plants. These plants may not be designed to meet the growing demand result in increase in waste water flow. Infiltration of ground water can also result in the deposition of sediment and debris, significantly reducing the flow capacity for waste water. Continued maintenance and rehabilitation is essential for the performance and reliability of any type of buried infrastructure.
Integrated asset priorities	Replacement of deteriorating sanitary sewers is carried out based on the assessed condition. In the event that replacement is selected as the rehabilitation strategy, the project may expand to include other assets such as sidewalks, road trench cuts, or full pavement. Other utilities may also become included in the scope of work: hydro, telephone, cable, and natural gas. Typically the integration of road rehabilitation will increase the priority of the project.

Bridges and Large Culverts

Anticipated asset life cycle	The life cycle of bridges and culverts is considerably variable and dependent on construction methodology and materials, traffic loading, traffic volume, and environmental exposure conditions (temperatures, chloride concentrations, etc). Bridges and concrete culverts constructed after 2000 have an expected life cycle of 75 years, whereas those constructed pre 2000 have an expected life of 50 years. The approximated service life of steel corrugated culverts is 40 years.
Integration opportunities	Typically it is not integrated with the other work other than potential road widening or resurfacing projects.
Rehabilitation and replacement criteria	The ranking of bridge and culvert work is based on several select criteria: safety, level of service, traffic volume and loading, and preservation of infrastructure. To assess the condition of the structures bi-annual visual inspections are conducted and if deemed necessary detailed bridge condition surveys are completed to better evaluate present conditions. In the inspections, bridge components are assessed individually recording the severity and degree of deterioration and the overall condition. Each bridge is assigned a Bridge Condition Index value between 100 and 0 where a value of 100 indicates excellent conditions and a value of 0 indicates poor deteriorating conditions.
Rehabilitation and replacement strategies	The specification of the bridge or culvert rehabilitation strategy is reliant on the structure's age, data and observations acquired through inspections and condition surveys, and the estimated remaining service life. The following strategies should be implemented at the specified age: at 15 years the asphalt deck should be resurfaced and at 30 years the concrete deck should be patched, waterproofed and the joints replaced; at 50 years replace entire concrete deck.
Life cycle consequences	The reduction of bridge and culvert service life endangers user safety and results in a decrease of level of service.
Integrated asset priorities	Typically it is not integrated with the other work other than potential road widening or resurfacing projects.

Buildings

Anticipated asset life cycle.	The Life Cycle ranges from 15 to 50 years. Examining individual elements, the expected service life of the roof system varies from 25 to 30 years. Hot boiler or carpeting replacement typically occurs every 15 years. Similarly, the building superstructure life cycle is predicted as 50 or more years. These values hold true under the assumption that the elements are properly maintained throughout their service lives.
Integration opportunities	Assets are appraised separately. The projects however are assembled by asset to make use of the "economics of scale" principle. Special attention is given to ensure that the disruption of asset operations is minimized over its service life.
Rehabilitation and replacement criteria	To assess facilities the Facility Condition Index (FCI) is used. FCI is a ratio of total deferred maintenance, costs/ current replacement value of the facility. The index can be used to assess either individual assets or grouped assets. The FCI is currently accepted throughout North America.
Rehabilitation and replacement strategies	The replacement schedule will be dictated by the actual asset conditions at the time, the stage in its life cycle, and the FCI asset condition summaries. Replacement may also be undertaken to meet any changes in safety, industry or technological specifications and standards. The facility must also be maintained to meet the requirements of the Accessibility for Ontarians with Disabilities Act (AODA) and upgrade ingress/egress points as necessary. Critical components which should be given special attention with annual inspections include facility roof and HVAC systems. Any scheduled improvements should take into consideration the institution of economical energy efficient systems and equipment.
Life cycle consequences	Degradation of the building and its components are noticed, as well as increases in operational costs due to inefficiencies, health and safety concerns, and depreciation of Administration assets.
Integrated asset priorities	The schedule of replacement is dependent on the facility's stage in its life cycle, the actual condition at the time, and the convenience of performing the replacement without disturbing the operations.

Vehicles and Moveable Equipment

Anticipated asset life cycle.	Service life is dependent on the type or vehicle/equipment and service area. The expected life cycle of cars and pickup trucks is 8-10 years, 10 years for duty trucks, 12 years for ice resurfacers, 10-15 years for front loaders, backhoes and tractors, 20 years for graders, and 20-25 years for fire vehicles.
Integration opportunities	Integrated with operation adjustments, modifications in service levels, meeting environmental regulations, technological upgrades and financial plans.
Rehabilitation and replacement criteria	Replacement of fleet will be dictated by the results of lifecycle cost analysis considering the following variables: repairs, insurance, fuel, depreciation, and downtime costs.
Rehabilitation and replacement strategies	In the case that vehicular repairs exceed 40% of replacement costs, replacement is the optimal strategy. Other strategies include leasing opportunities, refurbishing, seasonal rentals, or tendering services to a third party.
Life cycle consequences	Vehicles that are not maintained, or as vehicles reach the end of the service lives the efficiency of vehicles decrease, seeing an increase in cost per km. In the event of service interruption, work force costs are increased due to extended work schedules and overall loss of production.
Integrated asset priorities	Not applicable.

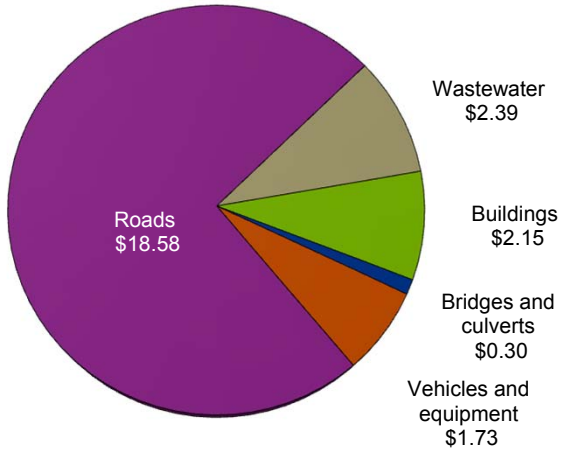
Financial Requirements

For asset management planning purposes, the financial requirement associated with the Municipality's infrastructure requirements can be divided into two categories:

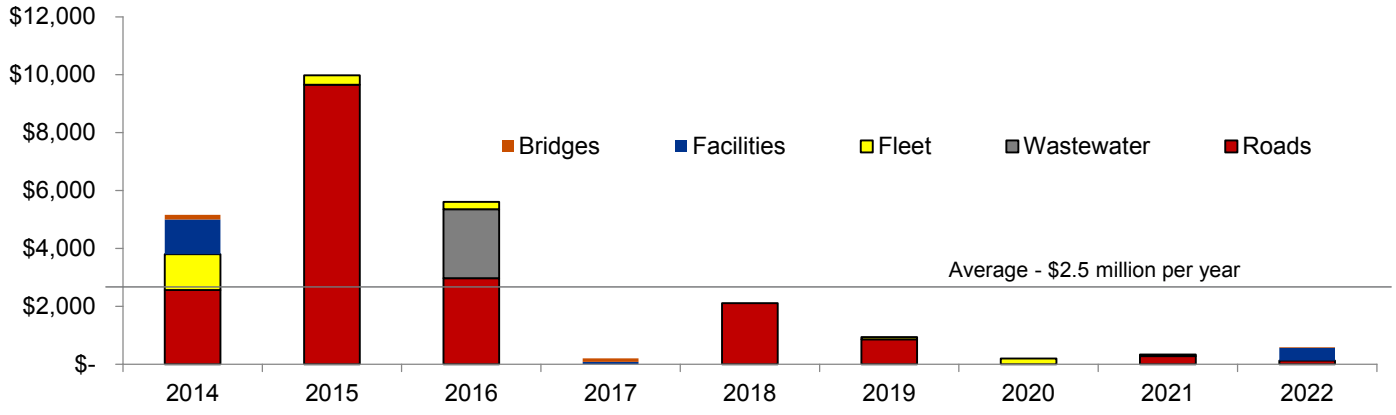
- **Immediate infrastructure investment needs.** Based on the results of the condition assessment, an indication as to the types of asset management activities required over the next ten years, and their associated costs, has been developed. Overall, it is estimated that the Municipality would need to invest $25.1 million in its infrastructure, the majority of which ($18.6 million or 82%) relates to the municipal road network. Also included in the Municipality's immediate infrastructure needs is $2.3 million for sludge removal at its North Wastewater Treatment facilities, which has been identified by the Municipality as an infrastructure priority.

  On average, the Municipality's immediate infrastructure investment needs amount to approximately $2.5 million per year, recognizing that approximately $5 million of the Municipality's investment requirement should be incurred immediately.

Immediate infrastructure needs (in millions)



Projected future infrastructure investment requirements by year (in thousands)



Financial Requirements

- **Sustainable life cycle requirements.** In addition to its immediate needs, the Municipality will also be required to fund the cost associated with all of its life cycle activities over the useful life of its infrastructure. As the Municipality has traditionally relied on grants to fund a major portion of its infrastructure, its historical levels of capital investment have fluctuated significantly. However, if the Municipality chose to fund its life cycle requirements evenly over the life of its assets, it would establish a regular and sustainable stream of funding for ongoing capital asset management that would be equal to either:
  - The total life cycle cost of the asset divided by its useful life. This approach is appropriate for linear assets that have significant life cycle requirements throughout their useful life.
  - The total replacement cost of the asset divided by its useful life, which is appropriate for assets with fewer life cycle requirements and where straight replacement of the asset is the more likely scenario.

  Based on this approach, we have calculated the average annual contribution required to ensure a sustainable stream of funding for the Municipality's assets to be in the order of $2.6 million.

Estimated sustainable life cycle requirement

Asset Component	Basis of Determination	Total Costs Over Useful Life	Estimated Useful Life	Annual Requirement
Roads	Life cycle	$101,135,228	60 years	$1,685,587
Water distribution network	Life cycle	$9,183,849	60 years	$153,064
Wastewater collection network	Life cycle	$18,619,867	60 years	$310,331
Bridges and culverts	Replacement	$686,375	50 years	$13,728
Buildings and facilities	Replacement	$16,480,938	50 years	$329,619
Docks	Replacement	$500,000	20 years	$25,000
Vehicles and equipment	Replacement	$2,197,500	20 years	$109,875
Total		$148,803,757		$2,627,204

Prioritizing Infrastructure Requirements

The overall infrastructure financing requirement for the Municipality, assuming that all life cycle activities are undertaken at the recommended intervals and that the Municipality funds overall life cycle and replacement costs evenly over the assets lives, is calculated to be in the order of $5.1 million, as follows:

- Immediate infrastructure investment needs $2.5 million
- Sustainable life cycle requirements $2.6 million

In comparison, the Municipality's 2013 budget supported approximately $584,000 in capital expenditures (excluding capital expenditures funded through grants and prior year's surplus). Given the magnitude of the estimated infrastructure financing requirement, it is evident that ***the Municipality is unable to fully meet its ongoing infrastructure requirements without significant levels of support from senior levels of government*** on an ongoing (i.e. annual) basis. As such, the Municipality will be required to prioritize its capital investments and the application of its available funds.

For asset management purposes, the investment requirements associated with the Municipality's infrastructure are divided into three main categories, as follows:

Category	Description
Priority 1	• Assets with an investment requirement within the next five years, based on condition or useful life • Co-located assets that may not require investment within the next five years but should be replaced as part of the integrated project. For example, sewer and water pipes underneath a road may not be at the end of their useful life but could be replaced as part of a road reconstruction project if they are approaching the end of their useful life before the next road reconstruction. • Assets that may qualify for specific grants, even if an immediate investment requirement has not been identified within the next five years • Infrastructure investments required as a result of changing legislation, public health or safety concerns or strategic purposes (e.g. economic development)
Priority 2	• Assets with an investment requirement within the next six to ten years • Assets that would otherwise be classed as Priority 1 but are considered to have reduced importance due to low utilization by the community (e.g. roads with low traffic volumes), compensating strategies in the event of failure (e.g. detours, reduced speed limits or load limits or limited impacts on public health or safety in the event of a failure
Priority 3	• Assets with no investment requirements identified within the next ten years • Assets to be discontinued or abandoned • Assets that would otherwise be classified as Priority 1 or 2 but are considered to have reduced importance

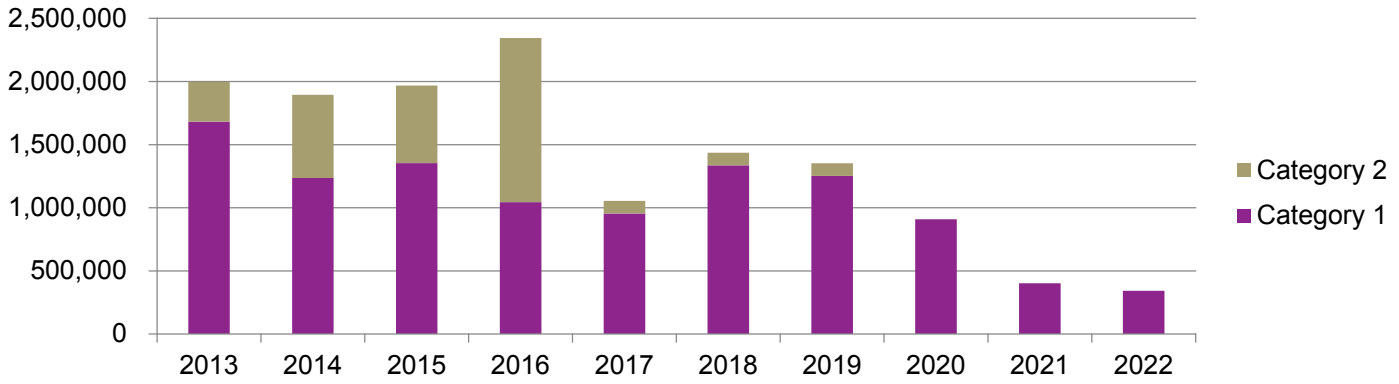
As part of its ongoing asset management activities, the Municipality will review its prioritization criteria and asset rankings and, if considered necessary, make appropriate revisions.

Congruence with Long-term Capital Plan

As part of its 2013 budget process, the Municipality established a 10-year capital plan that outlined its proposed investment in infrastructure and other assets based on two categories:

- Category 1 – projects that need to be done due to a legislative responsibility, a legal responsibility, a safety issue or a municipal need; and
- Category 2 – projects that should be done or would like to be done but will only be undertaken if the Municipality receives all or part of funding from external sources (i.e. contingent upon successful grant applications).

The capital forecast identifies capital spending by year and by municipal department (transportation, environmental, etc.), which amounts to an average of $685,000 per year. In comparison, the identified investment requirement has been estimated to be $4.8 million per year for each of the next ten years.



In light of the significant difference between the Municipality's available financial resources and the required infrastructure investment, the Municipality will reconsider the strategies outlined in the ten year capital plan with the intention of:

- Reconsidering investments in non-core infrastructure, specifically costs relating to the redevelopment of the Old Goward Mill site and other growth-related investments that may not provide economic benefits to the community
- Reducing the Municipality's reliance on the prior year's surplus as a source of capital funding. The Municipality's current capital plan is predicated on the assumption that prior year's surpluses will be available to financing ongoing capital, which overstates the Municipality's available financial resources as these funds will eventually be fully utilized and are not incorporated into the Municipality's levy.

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Chapter V
Financing Strategy

Basis of Analysis

The development of the Municipality's financing strategy for its asset management plan reflects the guidance outlined by the Province of Ontario in *Building Together – Guide for Municipal Asset Management Plans*. Specifically, the development of the financing strategy (and in particular the extent of the Municipality's financing shortfall) is based on the following parameters:

- Presents annual revenues and expenditures for the planning period (25 years), as well as comparative information;
- Does not consider grants from senior governments to be a confirmed source of revenue unless an agreement has been executed. Accordingly, only Federal Gas Tax and the Municipality's allocation for capacity funding under the Municipal Infrastructure Investment Initiative have been included in the projections; and
- Identifies the potential funding shortfall and how it will be managed.

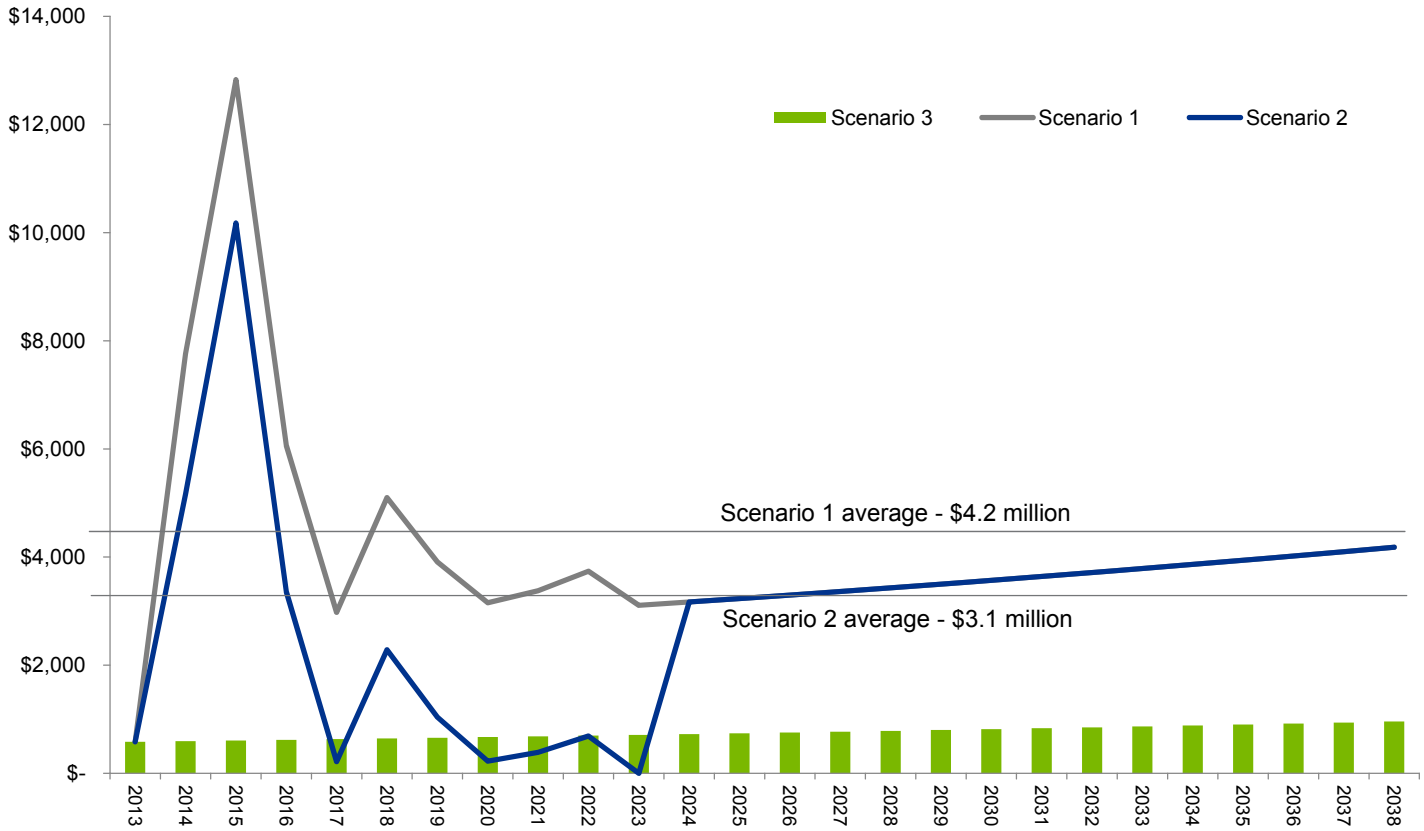
In developing the financial strategy, three alternative scenarios were considered:

- **Scenario 1** – Representing the base case scenario, this scenario reflects the assumption that all identified asset management requirements (immediate and long-term contributions) will be incurred by the Municipality. This represents the worst case scenario as it involves the highest level of capital financing requirement and ultimately is not practical due to the increase in municipal revenues necessary to support the required level of capital investment.
- **Scenario 2 –** Under this scenario, the Municipality's capital expenditures are projected to be as follows:
  - During the first 10 years of the planning period, the Municipality will make capital investments based on the identified priority infrastructure investment requirements (i.e. $2.5 million per year).
  - During the remainder of the planning period, the Municipality will make capital investments equal to the amount of the sustainable life cycle contribution requirements (i.e. $2.6 million per year).
- **Scenario 3 –** Under this scenario, it is assumed that the Municipality will continue to make capital investments based on the amount of funding budgeted in 2013 for capital expenditures (i.e. $584,000 per year).

Projected Financial Performance

Financial projections developed in support of the asset management plan demonstrate both the magnitude and immediacy of the Municipality's identified capital requirements, with the required level of capital expenditures under Scenarios 1 and 2 significantly higher than the current level. At the same time, the average residential taxes per household is expected to increase accordingly if taxpayers are solely responsible for funding the capital requirements.

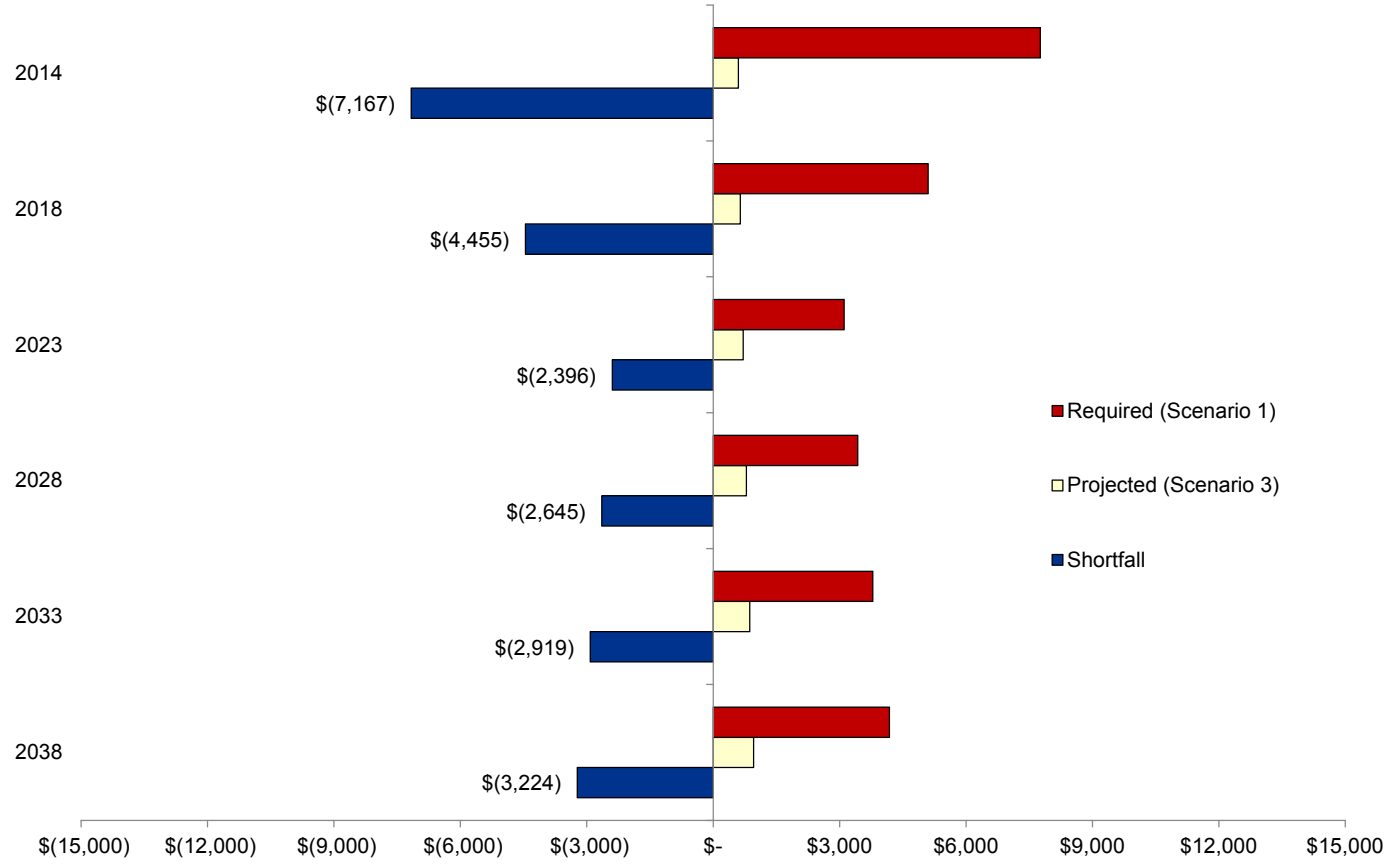
Projected capital expenditures (in thousands)



Projected Financial Performance

At the current level of capital expenditures, the Municipality is expected to continue its existing annual infrastructure deficit as its level of capital expenditures will be insufficient to maintain its infrastructure in its present state, let alone address immediate and short-term infrastructure requirements. As noted below, the Municipality's current annual funding shortfall is expected to be in the order of $3 million on an ongoing basis, assuming that its present infrastructure deficit of $4 million is resolved.

Calculated annual infrastructure funding shortfalls (in thousands)



Financing Strategies

In order to address the current and future shortfalls in capital funding, the Municipality has identified the following potential courses of action:

1. **Five year capital levy**. In order to address the immediate and short-term infrastructure requirements, the Municipality is contemplating the introduction of a five year capital levy that would see the total municipal levy increase by 2% per year in order to fund capital expenditures. The proceeds from this capital levy would either be expended during the year, used to finance debt servicing costs for infrastructure related borrowings or placed in a reserve fund until such time as the funds are required (the Municipality adopts a similar approach for Federal Gas Tax, which is sometimes 'banked' until sufficient funds are accumulated to finance capital projects). As noted below, the introduction of a five year capital levy is expected to provide an additional $340,000 for capital purposes, representing a 58% increase in capital expenditures over the next five years.

Impact of five year, 2% capital levy on taxation and capital spending (in thousands)

Year	Municipal Levy			Capital Expenditures		
	Prior Year's Levy	Capital Levy Increase	Current Year's Levy	Prior Year's Expenditures	New Funding	Current Year's Expenditures
2014	$3,264	$65	$3,329	$584	$65	$649
2015	$3,329	$67	$3,396	$649	$67	$716
2016	$3,396	$68	$3,464	$716	$68	$784
2017	$3,464	$69	$3,533	$784	$69	$853
2018	$3,533	$71	$3,604	$853	$71	$924
Average annual increase in municipal levy			2.0%	Increase in capital expenditures		58%

The adoption and annual renewal of a capital levy is subject to the Municipality's annual budget process. In order to assist with establishing the levy, we have included a suggested capital financing policy as Appendix M.

Financing Strategies

2. **Use of borrowing for infrastructure investments**. Historically, the Municipality has relied on borrowings as a means of funding infrastructure investments, with the Municipality currently having outstanding long-term debt in respect of landfill equipment, water, wastewater, storm water and roads projects. On an ongoing basis, the Municipality may wish to consider the use of debt for additional infrastructure investments, conditional upon the following:

   - The infrastructure investment will provide a stream of non-taxation revenues that can be used to fund some or all of the associated debt servicing costs; and/or
   - The Municipality requires debt financing to fund its portion of infrastructure projects that are cost shared with senior government; and/or
   - The infrastructure investment is unavoidable as a result of regulatory changes or concerns over public health and safety and cannot be funded through other means; and
   - The associated debt servicing costs would not jeopardize the Municipality's financial sustainability or result in the Municipality exceeding its annual debt repayment limit.

The use of debt financing is particularly helpful in addressing immediate capital investment requirements as it allows the Municipality to spread the cost of projects over the term of the loan. For example, the amount of capital expenditures that could potentially be financed through the Municipality's proposed capital levy could amount to as much as $5.2 million, recognizing that future capital expenditures would be limited as the financing is directed towards debt servicing, not infrastructure investments. Alternatively, the Municipality may wish to adopted a phased approach to debt financing, whereby a fixed percentage of capital expenditures would be financed through debentures during the capital levy period.

Potential debt financed through five year capital levy

Year	Capital Levy	10 Year Loan (3.09%)	20 Year Loan (3.90%)	25 Year Loan (4.11%)
2014	$65	$555	$895	$1,007
2015	$67	$565	$914	$1,028
2016	$68	$577	$931	$1,048
2017	$69	$588	$950	$1,070
2018	$71	$600	$969	$1,091
Total	$340	$2,885	$4,658	$5,245

In addition to the issuance of new debt, the Municipality can also redirect funds currently used to service existing debt towards capital expenditures once the debt is repaid. By debt repayments funds into capital or using them to pay for new infrastructure loans (as opposed to reducing the municipal levy upon the repayment of the existing loans), the Municipality can further increase its funding for capital purposes.

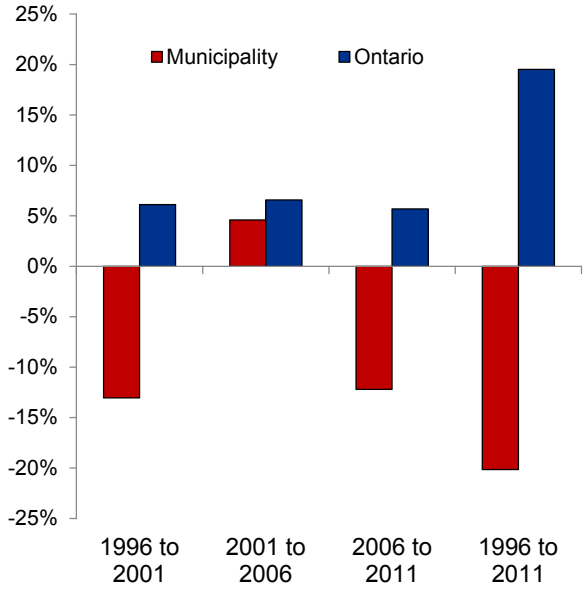
Affordability and the Need for Grants

Despite the ability of the Municipality to increase the level of financing for infrastructure investments and other asset management activities, the magnitude of the financial requirement associated with its infrastructure precludes the Municipality from addressing its needs without some form of grants. In the absence of capital grants, the Municipality will be required to defer capital expenditures until such time as sufficient funding is available.

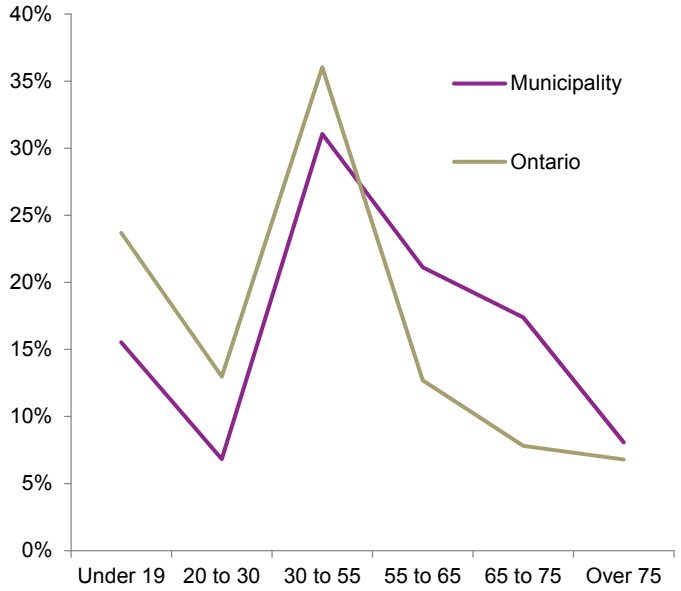
While it is expected that most, if not all, Ontario municipalities will be challenged to meet their financial requirements associated with infrastructure, the Province should give particular attention to the Municipality's limited ability to fund capital investments in comparison to other municipalities, based on the following:

- From 1996 to 2011, ***the Municipality's total population has decreased by 20.2%***, compared to a 19.5% increase in the Province's population over the same period.
- At the same time, ***the Municipality's population has aged faster than the Provincial average***, with the median age of the Municipality's residents amounting to 53.3 years compared to the Provincial median age of 42.5 years.

Population changes – 1996 to 2011



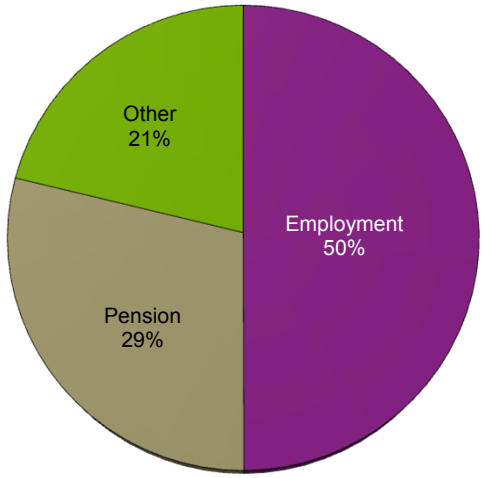
Population distribution by age group (2011)



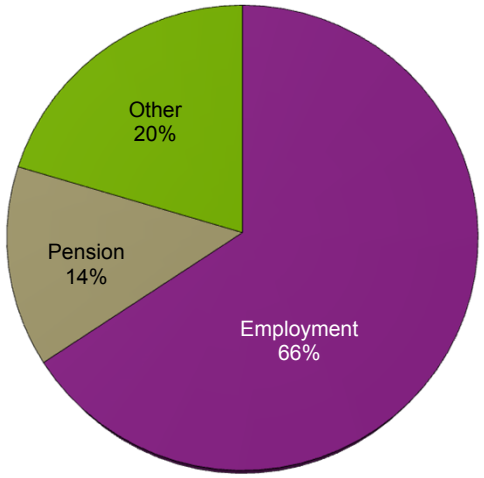
Affordability and the Need for Grants

- ***Residents of the Municipality are more reliant on pension incomes*** than the remainder of the Province, limiting their ability to afford ongoing property tax increases. Overall, 29% of total reported income was derived from pensions, compared with an average of 14% for the Province as a whole.

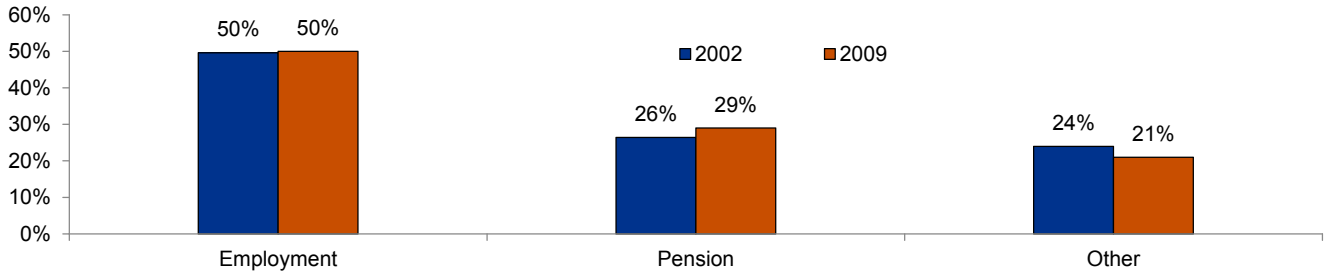
Reported personal income by source – Municipality residents (2009)



Reported personal income by source – Provincial residents (2009)



Reported personal income by source – Municipality residents (2002 vs. 2009)



Affordability and the Need for Grants

In addition to the challenges posed by the changing nature of its demographics, the Municipality is facing additional financial pressures from an operational perspective, including:

- The continuing impacts of inflation, including wage settlements and higher benefit costs, which increase the Municipality's operating expenditures
- Announced reductions in government funding programs, including planned reductions in OMPF funding and decreases in Federal Gas Tax funding

In light of its affordability constraints, the Municipality recognizes and appreciates the importance of programs such as the Municipal Infrastructure Investment Initiative and the Small, Rural and Northern Municipal Infrastructure Fund. That said, the current approach to allocating funding to municipalities is extremely problematic from a planning perspective:

- Unlike Federal Gas Tax, which is provided to municipalities as a recurring stream of known funding, the current Provincial infrastructure programs are based on applications with no guarantee of funding success. Accordingly, municipalities are unable to 'bank' Provincial infrastructure funding to finance larger capital projects, use proceeds as a source of funding for borrowing costs incurred in connection with infrastructure investments, or plan beyond the current funding submissions.
- The requirement for municipalities to apply for funding through the completion of expressions of interest can be a challenge, particularly for smaller municipalities with limited resources. In a number of instances, smaller municipalities are required to divert staff from other priorities or incur costs for outside consultants in order to complete the required expressions of interest, with no certainty that they will actually obtain funding.

As a means of maximizing the effectiveness of its capital financing programs, the Municipality requests that the Province consider the following:

- Supplement the current competitive, application based funding process with a committed stream of funding to eligible municipalities, thereby supporting long-term planning for infrastructure needs;
- Review the basis for allocating funding to communities, with increased emphasis placed on smaller communities that are challenged to meet their infrastructure needs due to limited assessment growth, higher than average population decreases and lower than average non-residential assessment, all of which pose challenges from an affordability perspective.
- Extending the eligibility requirement for funding programs to include other components of municipal infrastructure that are critical to a community's success, including airports, vehicles, recreational and cultural assets.

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Asset Management Planning
for the Municipality of Temagami

Chapter VI
Asset Management Plan Cross Reference

Congruence with Provincial Requirements

In this section of the report, the Municipality's asset management plan has been cross-referenced to the requirements outlined in *Building Together – Guide for Municipal Asset Management Plans* as a means of demonstrating that the Municipality has met the Province's expectations for asset management plans submitted under the Municipal Infrastructure Investment Initiative.

Required Section	Content	Location in Asset Management Plan
Executive summary		
Introduction	• explains how the goals of the municipality are dependent on Infrastructure • clarifies the relationship of the asset management plan to municipal planning and financial documents • describes to the public the purpose of the asset management plan • states which infrastructure assets are included in the plan. Best practice is to develop a plan that covers all infrastructure assets for which the municipality is responsible. At a minimum, plans should cover roads, bridges, water and wastewater systems, and social housing • identifies how many years the asset management plan covers and when it will be updated. At a minimum, plans must cover 10 years and be updated regularly. Best practice is for plans to cover the entire lifecycle of assets • describes how the asset management plan was developed — who was involved, what resources were used, any limitations, etc. • identifies how the plan will be evaluated and improved through clearly defined actions. Best practice is for actions to be short-term (less than three years) and include a timetable for implementation	Chapter I
State of local infrastructure	• asset types (e.g. urban arterial road, rural arterial road, watermains) and quantity/extent (e.g. length in kilometres for linear assets). • financial accounting valuation and replacement cost valuation. • asset age distribution and asset age as a proportion of expected useful life. • asset condition (e.g. proportion of assets in "good," "fair" and "poor" condition). Asset condition must be assessed according to standard engineering practices. For bridge structures, condition is based on an analysis of bridge inspection reports. • discusses how and when information regarding the characteristics, value, and condition of assets will be updated.	Chapter II

Congruence with Provincial Requirements

Required Section	Content	Location in Asset Management Plan
Desired level of service	• defines levels of service through performance measures, targets and timeframes to achieve the targets if they are not already being achieved. • discusses any external trends or issues that may affect expected levels of service or the municipality's ability to meet them • shows current performance relative to the targets set out	Chapter III
Asset management strategy	• non-infrastructure solutions – actions or policies that can lower costs or extend asset life (e.g., better integrated infrastructure planning and land use planning, demand management, insurance, process optimization, managed failures, etc.) • maintenance activities – including regularly scheduled inspection and maintenance, or more significant repair and activities associated with unexpected events • renewal/rehabilitation activities – significant repairs designed to extend the life of the asset. For example, the lining of iron watermains can defer the need for replacement • replacement activities – activities that are expected to occur once an asset has reached the end of its useful life and renewal/ rehabilitation is no longer an option • disposal activities – the activities associated with disposing of an asset once it has reached the end of its useful life, or is otherwise no longer needed by the municipality • expansion activities (if necessary) – planned activities required to extend services to previously unserviced areas - or expand services to meet growth demands • discusses procurement methods • includes an overview of the risks associated with the strategy and any actions that will be taken in response.	Chapter IV

Financial strategy	• shows yearly expenditure forecasts broken down by:
	  • Non-infrastructure solutions
	  • Maintenance activities
	  • Renewal/rehabilitation activities
	  • Replacement activities
	  • Disposal activities
	  • Expansion activities (if necessary)
	• provides actual expenditures for these categories for comparison purposes.
	• gives a breakdown of yearly revenues by confirmed source
	• discusses key assumptions and alternative scenarios where appropriate.
	• identifies any funding shortfall relative to financial requirements that cannot be eliminated and discuss the impact of the shortfall and how the impact will be managed.
		Chapter V

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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 endeavor 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.