

September 7, 2022

Memorandum to: Jules Ribi
Landlab

From: Daryl Keleher, Senior Director
Altus Group Economic Consulting

Subject: **Review of Alnwick/Haldimand Township Asset Management Plan**
Our File: **P-6769**

Altus Group Economic Consulting was retained by Landlab to prepare a Fiscal Impact Study for the Lakeport Beach development in the Township of Alnwick/Haldimand (the “Township”). The Fiscal Impact Study was dated November 2021, and submitted to the Township. The Township has recently prepared an Asset Management Plan (“2021 AMP”) for the 2021-2030 period, prepared by Infrastructure Solutions and DOT. This memo reviews the 2021 AMP and how the findings of the Fiscal Impact Study can address some of the issues facing the Township. The memo also reviews the Township’s recent budget to understand the financial issues the Township may be facing.

Summary

Based on our review of the Asset Management Plan and previous work undertaken to complete a Fiscal Impact Study to estimate the potential impacts of the Lakeport Beach project on the finances of the Township and Northumberland County. In summary, our findings are as follows:

- The 2021 AMP estimates that the Township has an infrastructure deficit of \$27 million, with primary source of the infrastructure deficit being roads, with the **66% of the road kilometres in the Township assessed as being in “Very Poor” condition**, equating to 317 kilometres of roads in Very Poor condition;
- **The Township’s infrastructure deficit for roads is the second worst among all 400+ municipalities in Ontario**, with the value of the Township’s roads in their current state representing just 14% of the original cost value – the Province-wide average is 60%. Northumberland County is at 55%.
- The 2021 AMP warns that continued deterioration of the Township’s road condition will lead to outmigration to other parts of Ontario, which will further reduce available revenues to address the problem – creating a vicious cycle of underinvestment leading to more underinvestment in the future
- The 2021 AMP finds that the Township is not collecting enough property taxes from existing residents to fund these infrastructure renewal costs and would require an annual funding increase of \$1.5 million per year from sources such as the property tax base to eliminate the deficit by 2030 – this would equate to an annual property tax increase of 6.2% per annum.

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- The 2021 AMP findings mirror those made of an earlier Asset Management Plan undertaken in 2014, suggesting that the Township's issues have been present for some time;
- Lakeport Beach can help expand the property tax base of the Township, and based on our estimates, produce a significant annual property tax surplus relative to estimated costs to mitigate the need for the scale and scope of the significant actions the 2021 AMP recommends, which include substantial annual property tax increases, increased reliance on debt, or competing with other parties across Ontario or Canada for grants from upper levels of government to address the root issue.
- It is estimated that the \$1.9 million in additional annual property tax revenues would provide a 30% boost to the Township's annual tax revenues. In addition to mitigating the need for property tax rate increases, the increased recurring revenue, would under the Province's approach to guiding municipal decisions on debt (pegging annual debt payments to 25% of annual recurring revenues), provides additional borrowing room for the Township to utilize, should it choose to debt finance the necessary infrastructure upgrades to address the significant infrastructure deficit.

Key Takeaways from Township's Asset Management Plan

The key finding of the 2021 AMP is that the Township has an infrastructure deficit totalling \$27 million, requiring an additional \$1.5 million per year in contributions to the Township's capital budget to eliminate this deficit, as the Township is only obtaining \$1.42 million in annual contributions from the property tax base, but requires \$2.9 million per year in contributions to eliminate the existing infrastructure deficit by 2030.

Of the \$27 million infrastructure deficit, roughly \$18.2 million is related to roads. The 2021 AMP estimates that 317-km of roads in the Township are in "Very Poor" condition, or roughly 66% of all roads in the Township. According to the map provided in the 2021 AMP (figure 17), the "Very Poor" roads are located in all areas of the Township.

Even assuming an annual 3.5% property tax increases, the 2021 AMP finds that the Township is not collecting enough property taxes to eliminate the infrastructure deficit. Instead, the 2021 AMP estimates that the Township would need to increase property taxes by 6.2% per year through 2030 to eliminate the full infrastructure deficit, covering off all capital and operating costs in doing so. The Township's 2022 budget shows a property tax increase of 3.9% again well short of the amount identified in the 2021 AMP to begin to close the infrastructure deficit in the Township.

The 2021 AMP provides several options for funding the annual funding needs from the existing community:

- Utilizing a Special Levy (5% property tax surcharge) on Existing Taxpayers;
- Rethinking Infrastructure Services – includes re-evaluating priorities, costs of services, service levels, and potentially eliminating low-priority services;
- Strategic Use of Debt – the Township is well within Provincial guidelines for annual repayment costs, at just 1.7% of annual own-source revenues, compared to the Provincial limit of 25%;
- Apply for Provincial and Federal Infrastructure Grants;

Figure 1

2021 Road Condition Map, Township of Alnwick/Haldimand

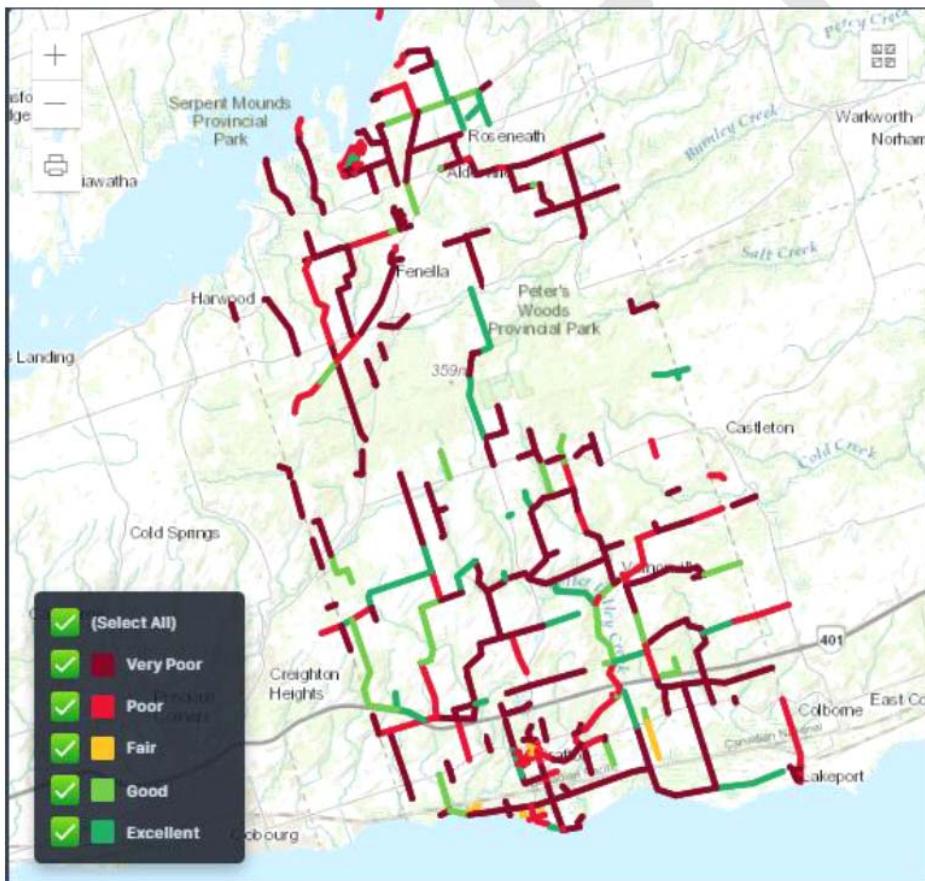


Figure 17: Est. 2021 Road Network Condition Map

Source: Township of Alnwick/Haldimand, Asset Management Plan 2021-2030

The 2021 AMP concludes with the following summary of the position the Township is in.

The Township should give due consideration to the following points:

1. *The Township has insufficient funds from existing sources to proactively manage its infrastructure and will need to prioritize its requirements to maximizing the impact of existing financial resources.*
2. *The Township has a growing infrastructure deficit which is serious considering its population and tax base. A special infrastructure levy will help the Municipality to reduce the gap over time and should be taken into consideration.*

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3. In the event that the Township implements an infrastructure levy, the excess funds should be transferred into a reserve so that the Township has some flexibility to prioritize and sustain future infrastructure and service level requirements, and have the ability to match funds with grant programs.

4. The Township needs to be proactive in reviewing and capitalizing on the upcoming Provincial and Federal programs, as the Township will need financial assistance to close its infrastructure deficit. It should seek government grants to be able to undertake the capital projects outlined in this Asset Management Plan.

The 2021 AMP concludes on a stark note by stating that not addressing the issue could lead to a deterioration in service levels, leading to an increased out-migration from the Township, negatively impacting the Township's tax base – in effect starting a vicious cycle of underinvestment and economic decline:

The vast majority of smaller Canadian municipalities do not have sufficient tax base to gain control over their infrastructure deficit. Without corrective action over the next 10 years, these communities will see a deterioration in the level of service being offered to its residents. Increased taxes and/or deteriorating levels of services often trigger a migration to larger municipalities, further undermining the smaller community's tax base.

Lakeport Beach can help expand the property tax base of the Township, and based on our estimates, produce a significant annual property tax surplus relative to estimated costs to mitigate the need for the scale and scope of the significant actions the 2021 AMP recommends, which include substantial annual property tax increases, increased reliance on debt, or competing with other parties across Ontario or Canada for grants from upper levels of government to address the root issue.

The issues raised in the 2021 AMP mirror those already identified in a 2014 AMP (by the same consultant who authored the 2021 AMP), with roads at that time generally in 'fair' condition, but warning of further deterioration to "poor" condition if no regular maintenance/rehabilitation was undertaken:

Through a comprehensive analysis of all asset types, ISI calculated the Township's "infrastructure deficit", defined as the added investment that would be required to maintain a Township's infrastructure at appropriate service levels and in a good state of repair today. The Township has an infrastructure deficit of \$28.94 MM in 2013. The Township of Alnwick/Haldimand's 2013 infrastructure deficit is determined to be \$4,400 per person, much below the national average but serious for a smaller Township with a limited tax base.

... As highlighted in the Report Card within, the Township's major linear asset, its roads, are generally in fair condition, however in the next 1-5 years, if no regular maintenance/rehabilitation is conducted on the roads, then they will deteriorate further to a "poor" condition. ...

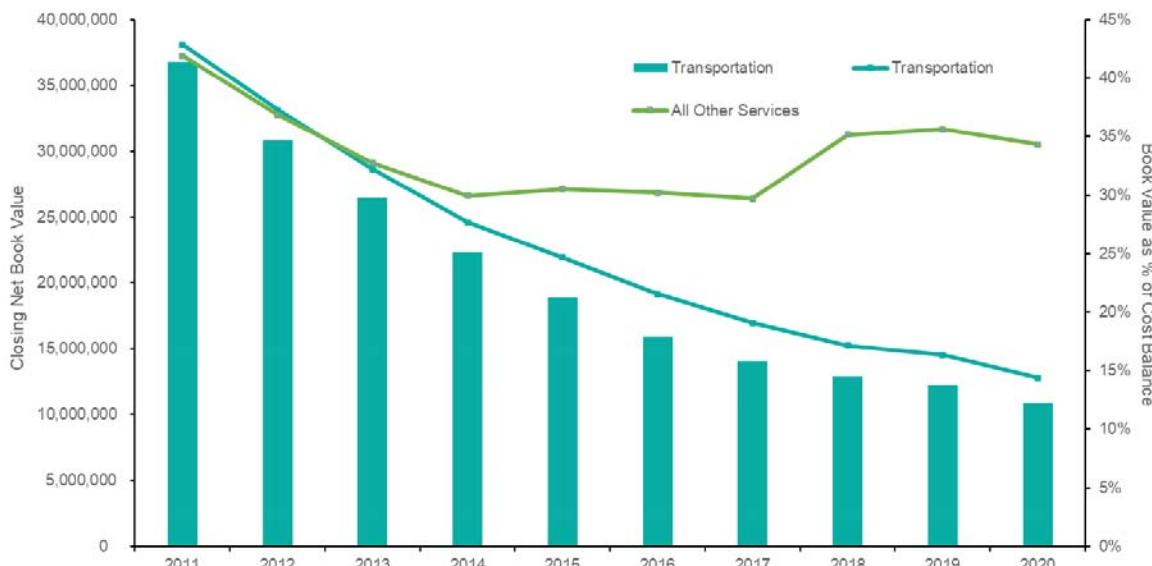
The \$28.94 million infrastructure deficit identified in the 2014 AMP is little changed in the 2021 AMP, which estimated the infrastructure deficit to be \$27 million.

The Township's Infrastructure Deficit is Second Worst in Ontario (out of 400+ Municipalities)

Based on review of the Township's annual Financial Information Return, the findings of the 2021 AMP are visible when looking at the steadily declining residual value of Township assets. While all non-Transportation assets have been maintained so as to see the current value of assets be 30-35% of the original cost basis of the asset, the Transportation system has declined each year going back to 2011 (at least). The depreciated value of Transportation assets in the Township is now worth just 14% of the true cost of the asset.

Figure 2

Depreciated Value of Municipal Capital Assets, 2011-2020, Township of Alnwick-Haldimand, Roads, Transportation and All Other



Source: Altus Group Economic Consulting based on Municipal FIR data

Review of 2020 FIR data for all municipalities in Ontario finds that the Township's 14% **is second lowest among all 444 Ontario municipalities**. By comparison, the County's residual value after depreciation stands at 55% of original cost, and the Provincial average is 60%.

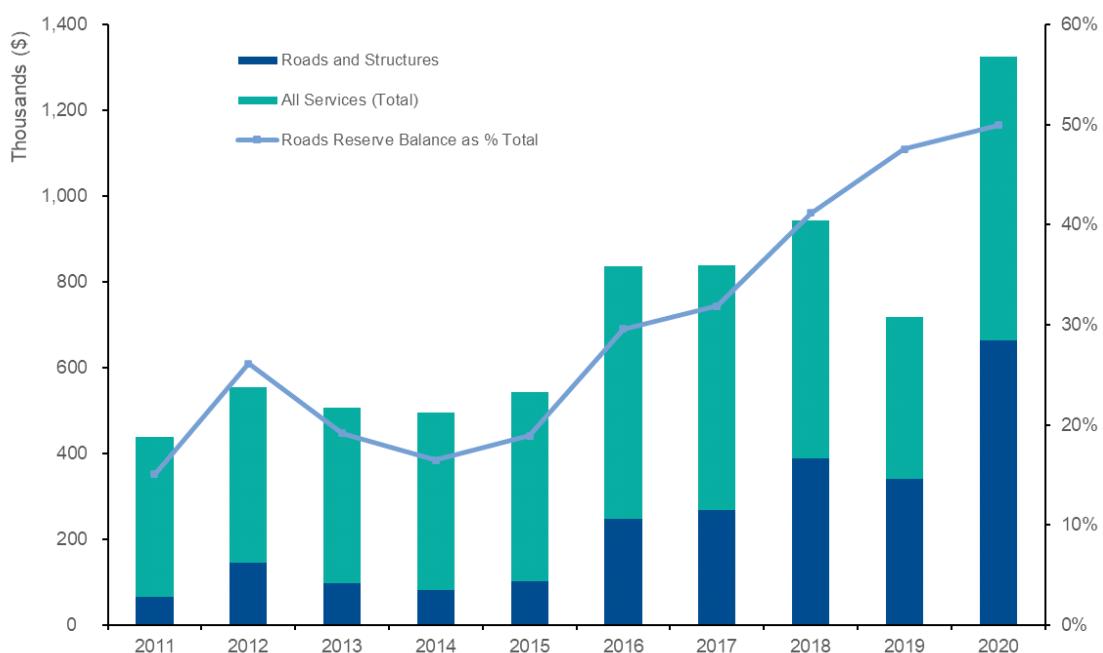
Proportionately, the Township's infrastructure deficit is among the worst in the Province, and getting worse by the year. The infrastructure deficit needs to be addressed through increased taxation, or accommodating development that can alleviate the severity of the issues present.

As an illustrative example, having just 14% of the residual value remaining in the asset is equivalent to a purchasing a home for \$500,000, but avoiding annual maintenance and upkeep to the point that the home is worth just \$70,000 on the resale market.

Figure 3 shows the Township's DC reserve fund balance for each year over the 2011-2020 period. The overall DC reserve fund balance has increased by 200% since 2011 (from \$439,000 to \$1,326,500), but the DC reserve fund balance for Roads has increased by 900% over the same period of time, with \$662,600 in DC reserve funds earmarked for roads. Our Fiscal Impact Study estimated that the Lakeport Beach project (at today's DC rates) would generate \$2.3 million in DC revenues for the Township, including \$1.47 million for Roads. To the extent that some of the Township's roads-related infrastructure deficit may be due to delayed growth-related spending on DC-eligible projects, the Township has funds to deploy to address some of the accumulated deficit.

Figure 3

Development Charges Reserve Fund Balances, 2011-2020, Township of Alnwick-Haldimand



Source: Altus Group Economic Consulting based on Municipal FIR data

The Township also carries very little debt. As of year-end 2020, the annual debt charges (principal + interest) amounts to 1.8% of annual net revenues (largely property tax). Lakeport Beach would add roughly 30% to the Township's property tax base¹, essentially creating 30% more 'room' to borrow to finance the infrastructure deficit and accelerate progress towards reducing and eliminating it.

¹ Estimated to add \$371 million in assessment and \$1.9 million in annual property tax revenues, against 2020 Township-wide assessment value of \$1.327 billion, and property tax revenues of \$6.57 million.

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How Lakeport Beach Can Help Accelerate Reduction of the Township's Infrastructure Deficit

Our Fiscal Impact Study estimated that the incremental net revenues that the Lakeport Beach development would generate for the Township would be \$837,260 per year. This would fund roughly 56% of the annual funding gap that the Township otherwise needs to cover through increased property taxes or other available funding sources should those be made available.

It is estimated that the \$1.9 million in additional annual property tax revenues would provide a 30% boost to the Township's annual tax revenues. This provides additional borrowing room for the Township to utilize, should it choose to debt finance the necessary infrastructure upgrades to address the significant infrastructure deficit.

The sooner Lakeport Beach is able to proceed, the sooner these benefits would begin to accrue to the Township, and the less reliance the Township would need to place on the existing tax base to reduce the estimated infrastructure deficit.