City of Cornwall

Long Term Financial Plan

Final Report

June 26, 2017

Disclaimer

This report is based on information and documentation that was made available to KPMG through the date of this report. KPMG has not audited or 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 our comments accordingly.

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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 City of Cornwall. KPMG has not and will not perform management functions or make management decisions for the City of Cornwall

This report may include or make 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 City of Cornwall. Accordingly, we believe we are independent of the City of Cornwall and are acting objectively.

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The contacts at KPMG in connection with this report are:

Bailey Church
Enterprise Audit
Partner

Tel: 613-212-3698
bchurch@kpmg.ca

Bruce Peever
Management Consulting
Director

Tel: 905-523-2224
bpeever@kpmg.ca

Rebecca Prophet
Enterprise Audit
Manager

Tel: 613-541-7341
rpropohet@kpmg.ca

Alan Mak
Infrastructure
Consultant

Tel: 647-777-5281
alanmak@kpmg.ca

Executive Summary

City of Cornwall
Long Term Financial Plan
Final Report

Introduction

Introduction

This final report was prepared to assist the City of Cornwall with the development of a long term financial plan that will review and assess long term financial objectives and policies, review existing financial targets and measures, and develop forecasting strategies to demonstrate the overall impact of current and future decisions over a ten year time horizon.

Project Objectives

KPMG was engaged by the City of Cornwall (the "City") to undertake the development of a long-term financial plan. The overall goal of the project was the development of a comprehensive financial plan that would assess the City's forecasted revenues, operating expenses and capital requirements and align its policies to address key risk areas while at the same time contributing towards the long-term financial sustainability of the City.

Specific project objectives included:

- Identify and assess the City's financial condition;
- Prepare and provide a fiscal impact study as it relates to the Official Plan, that includes, but is not limited to, the review and analysis of the cost of providing capital infrastructure to support the Official Plan;
- Review and analyze existing infrastructure repair and replacement requirements over the 2018 to 2027 period and comment on adequacy and appropriateness of existing funding policies;
- Review and analyze existing reserve and reserve funds and develop strategies to achieve adequate fund balances;
- Review the City of Cornwall's Progress Fund investments of nearly $22.6M currently invested in The One Investment Program and provide recommendations on the management and strategy to achieve its investment objectives;
- Recommend key financial performance indicators and targets that can be used as a basis for measuring and achieving the City's long term financial objectives;
- Review existing financial policies/plans and recommend updated/new policies to achieve sound financial management;
- Review existing plans/policies and their potential impact on the long term financial sustainability of the City's; and,
- Develop a computerized financial planning model capable of sensitivity analysis and report generation that is flexible to organizational changes. The model will also include the provision of a visual report card to track progress.

Key Assumptions

The financial forecast encompasses a number of key assumptions that are used to project the City's anticipated financial performance, including the following:

Operating expenses

Salary and benefit related costs are projected to increase at an average rate of 2.5% per year based upon our financial model. This reflects anticipated settlements under the City's collective bargaining agreements, corresponding increases for management personnel and escalations in benefit costs and other staffing adjustments. Over the five year period preceding the long-term financial plan (2010 to 2015), the City's reported personnel costs increased by an annual average (compounded) of 3.3%.

External transfers are forecasted to increase at a rate of 1.0% per year, based on the increase in reported external transfers during the five year period preceding the long-term financial plan (2010 to 2015).

Materials and goods costs are projected to increase at a rate of 1.0% per year, which represents the assumed general increase in energy costs due to inflation and the impact of saving initiatives undertaken by the City.

Other operating expenses are projected to increase at a rate of 3.0% per year, which represents the assumed general rate of increase in operating costs due to inflation and the impact of regulatory changes, with the City recommended to find efficiencies to offset cost increases[2]. This is consistent with the increase in other operating expenses during the five year period preceding the long-term financial plan (2010 to 2015).

Expenditure Category	Reported Operating Expenses (in millions)			Percentage of Total		
	2009	2015	Annual Increase	2009	2015	Average
Wages and benefits	$ 61.1	$ 74.0	3.3%	43.2%	46.9%	45.1%
Materials & Goods	$ 11.1	$ 12.5	2.1%	7.8%	7.9%	7.9%
External transfers	$ 47.3	$ 39.3	-2.8%	33.5%	24.9%	29.2%
Contracted Services, Rents & Financial Expenses	$ 21.9	$ 31.9	6.7%	15.5%	20.2%	17.9%
Total	**$ 141.4**	**$ 157.8**				

[1] Excludes amortization expense as these are addressed in the analysis of tangible capital assets.

[2] RBC Economics projects increases of 1.6% to 2.1% in government expenditures, while TD Economics projects increases of 1.5% to 2.1%.

Executive Summary

Key Assumptions

Non-taxation revenues

- The City's OMPF allocation is projected to decrease at the rate of 15% per year (2018 & 2019) and remain unchanged at $3.2 million for the remainder of the forecasted period. This level of decrease is consistent with the Province's annual reduction in OMPF funding since 2014 and reflects the guaranteed level of support, whereby the Province establishes total OMPF funding for the City based on percentage of the prior year's OMPF funding, with transitional assistance adjusted to arrive at total OMPF funding.
- The level of grants associated with social assistance and courthouse security programs is expected to increase in 2018, reflecting the final year of uploading for these programs. For subsequent years, these grants are expected to increase at a rate of 1% per year, reflecting the expected increase in operating costs during the remainder of the projection period.
- Water and wastewater user fee revenues are projected within this plan to increase at a rate of 3% per year to 2027, thereafter, based upon the City's financial plan for water and wastewater services.[1]
- User fees and other non-taxation revenues are projected to increase at a rate of 2% per year, which is consistent with the average increase in operating expenses during the six year period preceding the long-term financial plan (see prior page).

Capital expenditures and associated funding

- Projected capital expenditures and associated funding for the years 2018 to 2027 are based on the City's asset management plan completed in 2016. The total amount of capital expenditures during this period is forecasted to be $270 million, which includes the following major projects:

Capital Project	Timing	Cost
Boundary CNR Overpass	2018 – 2021	$7.5 million
Municipal Works Yard Redevelopment	2018 – 2025	$30.5 million
Benson Centre Soccer Fields & Multi Purpose Room	2019	$6.5 million
Fire HQ & Training Centre	2020	$5.0 million
Brookdale Ave. CN Connecting Link	2021 – 2023	$20.2 million
Arts Centre	2025	$10 million

[1] 2015 Water and Wastewater Financial Plan, Watson and Associates

Key Assumptions

Taxation assumptions

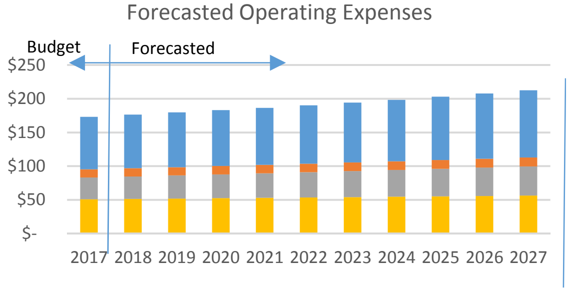
- The City's total taxable assessment is projected to increase at a rate of 1.0% per year, which is consistent with its total assessment growth during the six year period (2009 – 2015) preceding the long-term financial plan. This growth in assessment reflects:
  - An increase in the number of households during the 10 year projection period. The most recent growth forecast estimates an additional 1,353 households will be added to the City throughout a 10 year period;
  - An increase in the amount of commercial and industrial properties. The City's draft development charge background study forecasted a total of 1.93 million square feet of non-residential floor space to be constructed between 2017 and 2027; and
  - Valuation increases on new properties.
- The historical shift of taxable assessment from residential to non-residential properties is expected to continue over the duration of the financial model, with an assessment shift of 0.5% occurring from non-residential properties to residential properties.
- No changes will occur with respect to tax ratios for non-residential properties.

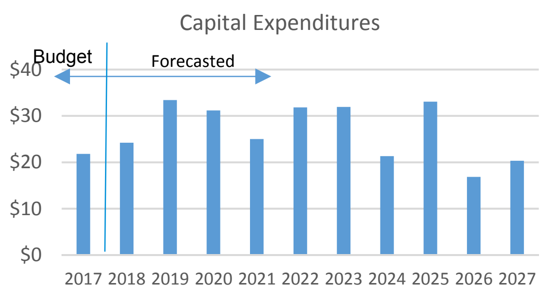
Projected Financial Performance

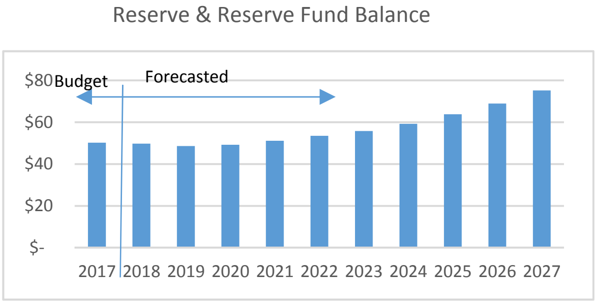
B. Projected financial performance

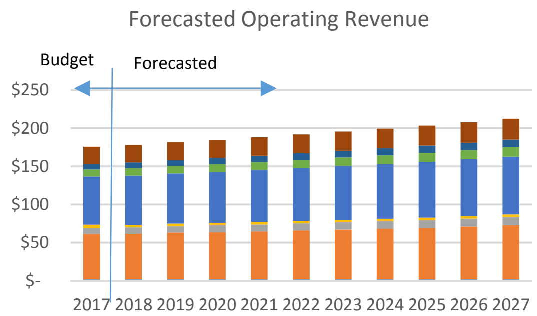
A summary of the City's financial performance and position over the next ten years is provided on the following pages. Specifically, we have included a summary of the following:

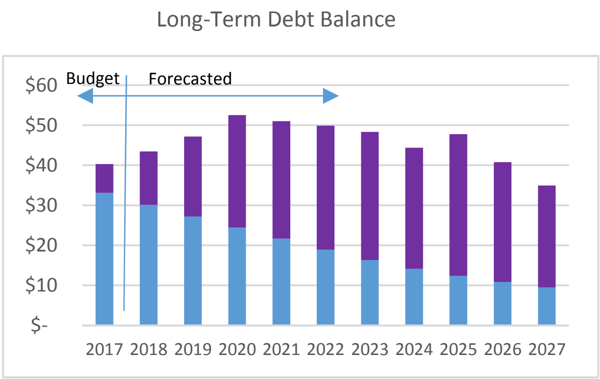
- Total operating expenditures
- Total operating revenues
- Total capital expenditures
- Reserve and reserve fund balances
- Long-term debt balances







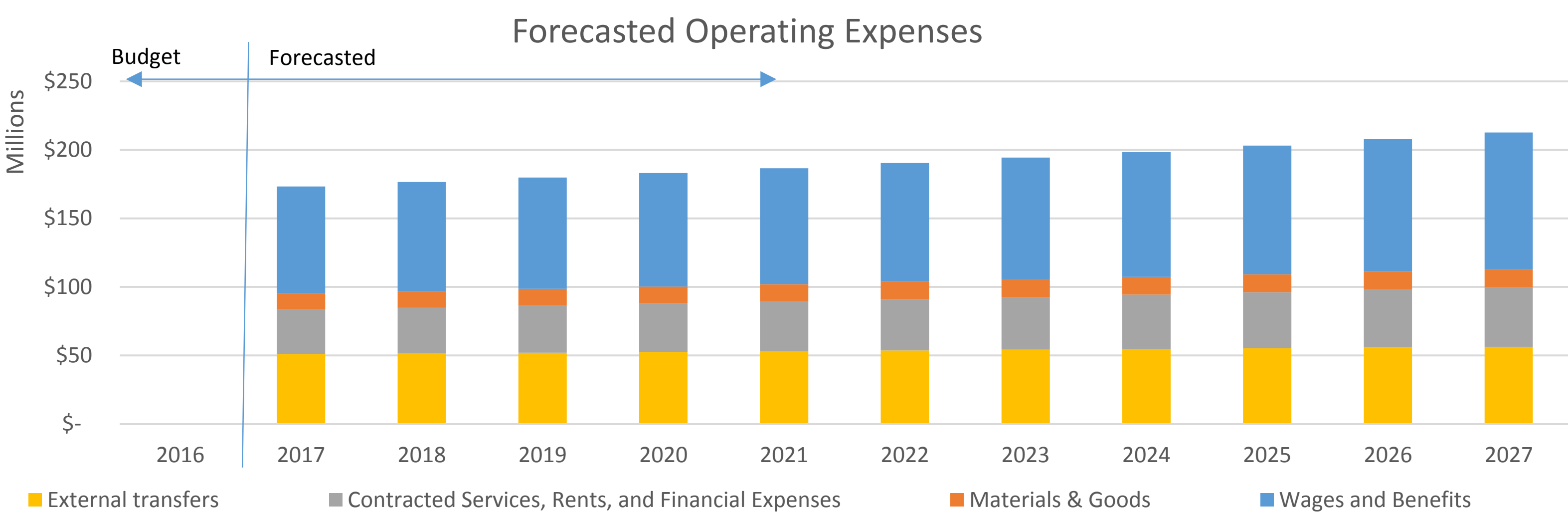




Operating Expenditures

Total operating expenses are projected to increase from $173 million in 2017 to $212 million in 2027, representing an average increase of 2.3% per year. Major components of operating expenditures are projected to increase as follows:

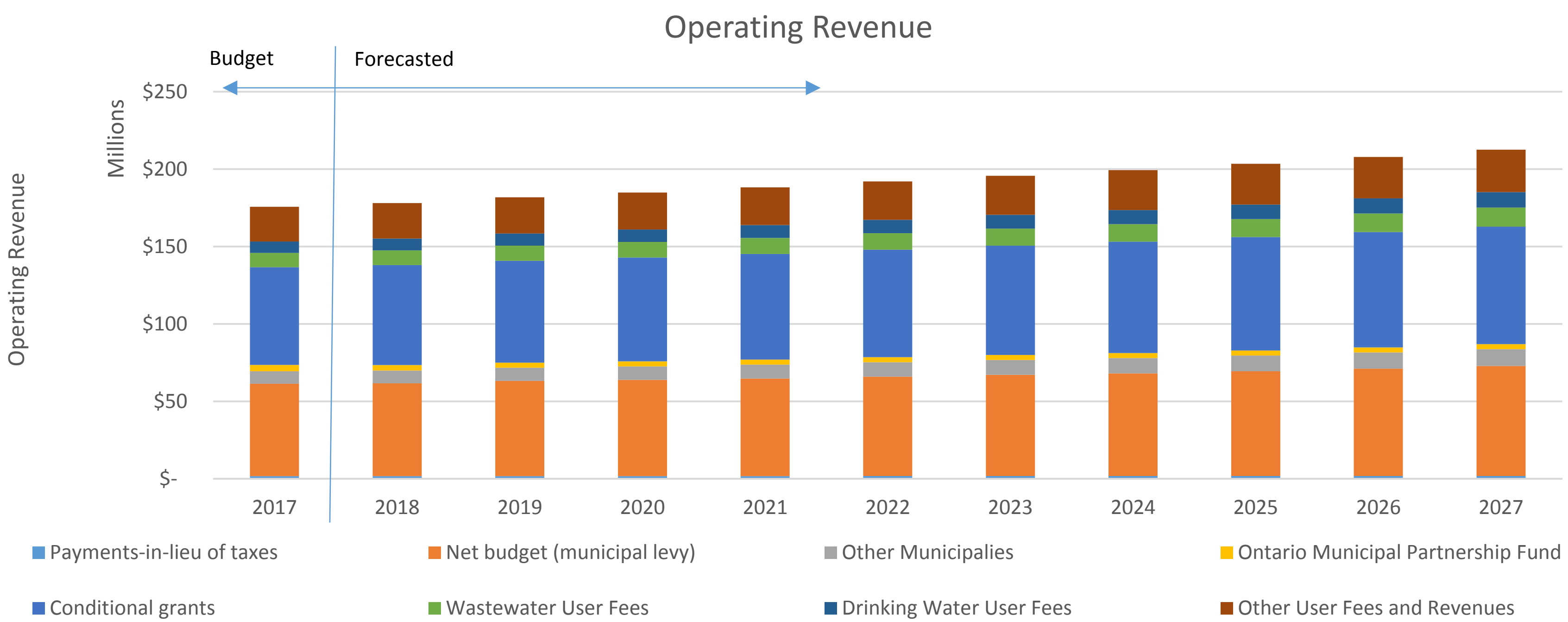
- Salaries and benefits increasing from $78 million in 2017 to $100 million in 2027;
- Materials and Goods increasing from $12 million in 2017 to $13 million in 2027;
- Contributions to reserves and capital are projected to increase from $14.0 million in 2018 to $20.4 million in 2027; reflecting the anticipated increase in capital financing over the duration of the financial projection period;
- Consistent with the Provincial social services agreement, external transfers are expected to show minimal increases over the 10 year forecasted period.
- All other expenses (contracted services, rents, and financial expenses) are projected to increase from $32 million in 2017 to $43 million in 2027.



Operating Revenues

Total operating revenues are projected to increase from $118 million in 2017 to $143 million in 2027, a compound annual growth rate of 2.0%. With respect to projected operating revenues:

- The total municipal levy is forecasted to increase from $67.4 million in 2017 to $93.8 million in 2027, representing an annual increase of 3.37%. Overall, residential taxes per household are projected to increase from approximately $3,200 in 2017 to $4,100 in 2027, an increase of 2.8%. The rate of change in average taxes per household reflects a number of factors, including the projected increase in households offset by assessment shift from non-residential to residential properties.
- Own source revenues (which include the municipal levy, user fees and other revenue sources) are projected to marginally increase from 62% of total operating revenues in 2017 to 65% in 2027, reflecting the assumption that senior government grants will not increase, requiring the City to rely exclusively on own source revenue to fund operating cost increases.

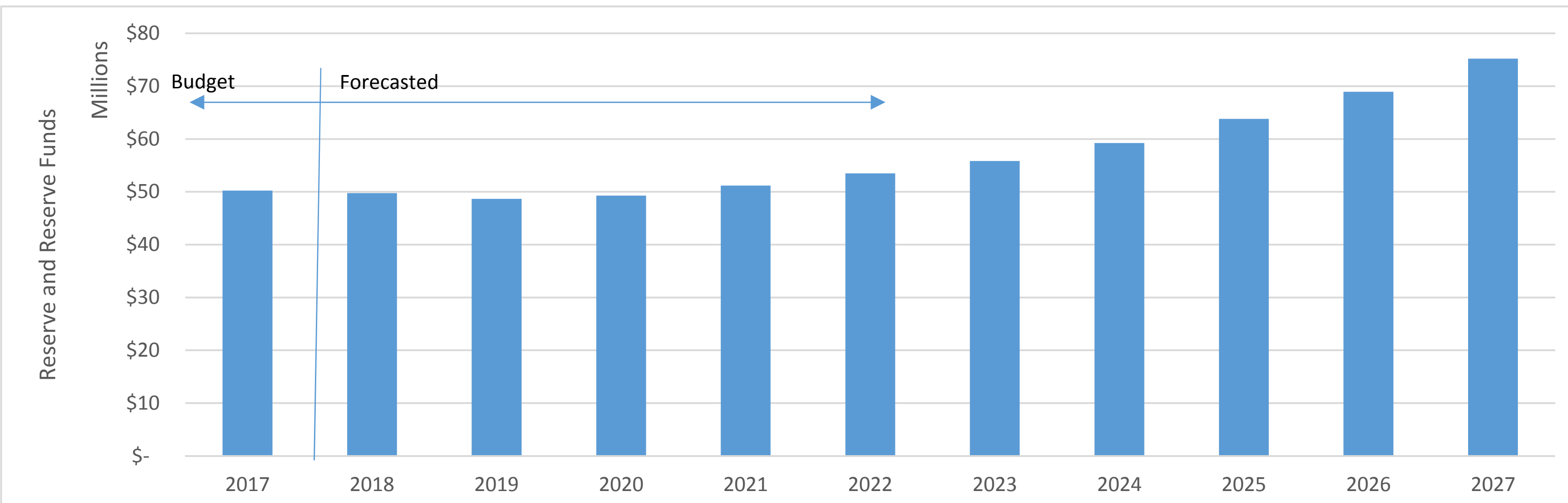


Reserves & Reserve Funds

Reserve and reserve funds are projected to increase substantially during the projection period, from $50.2 million in 2017 to $75.4 million in 2027. Under this long term financial plan, the City will begin two initiatives to build its internal reserves and reserve funds. First, it will begin to gradually life-cycle cost its major capital assets. Life-cycle costing will contribute approximately $5.6 million to the City's reserves. Second, the City will implement on a gradual basis a capital levy ultimately equal to 2% of net operating expenditures which will contribute approximately $7.8 million over the 10 year period.

Overall, reserve and reserve funds per household are projected to increase significantly, increasing from $2,279 in 2017 to $3,275 in 2027, reflecting the impact of life-cycle costing and the capital levy.

Reserves and Reserve Funds

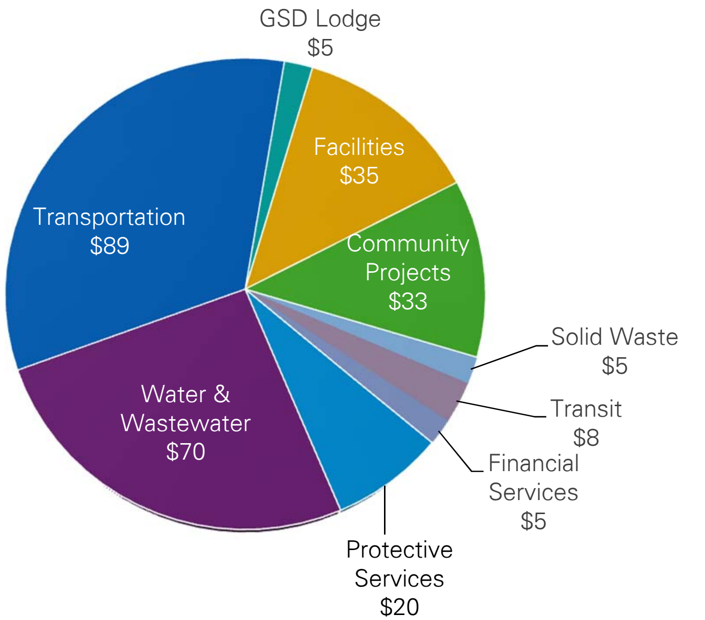


Capital Expenditures

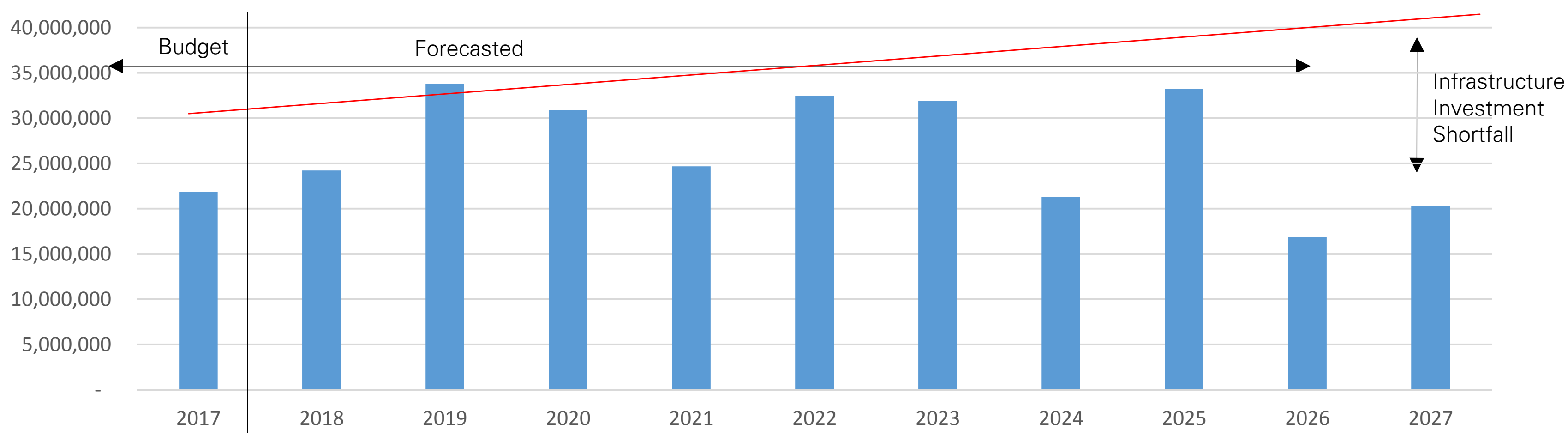
Over the duration of the financial plan, total capital expenditures are projected to amount to $270 million. The majority of capital expenditures relate to transportation (33%), water and wastewater (26%) and facilities (13%).

The City has infrastructure investment requirements of $327 million during the financial planning period, projected capital expenditures of $270 million while substantial remains insufficient to meet the level of investment needed to replace assets operating beyond their useful lives.

Projected Capital Expenditures 2018 – 2027 (millions)



Capital Expenditures

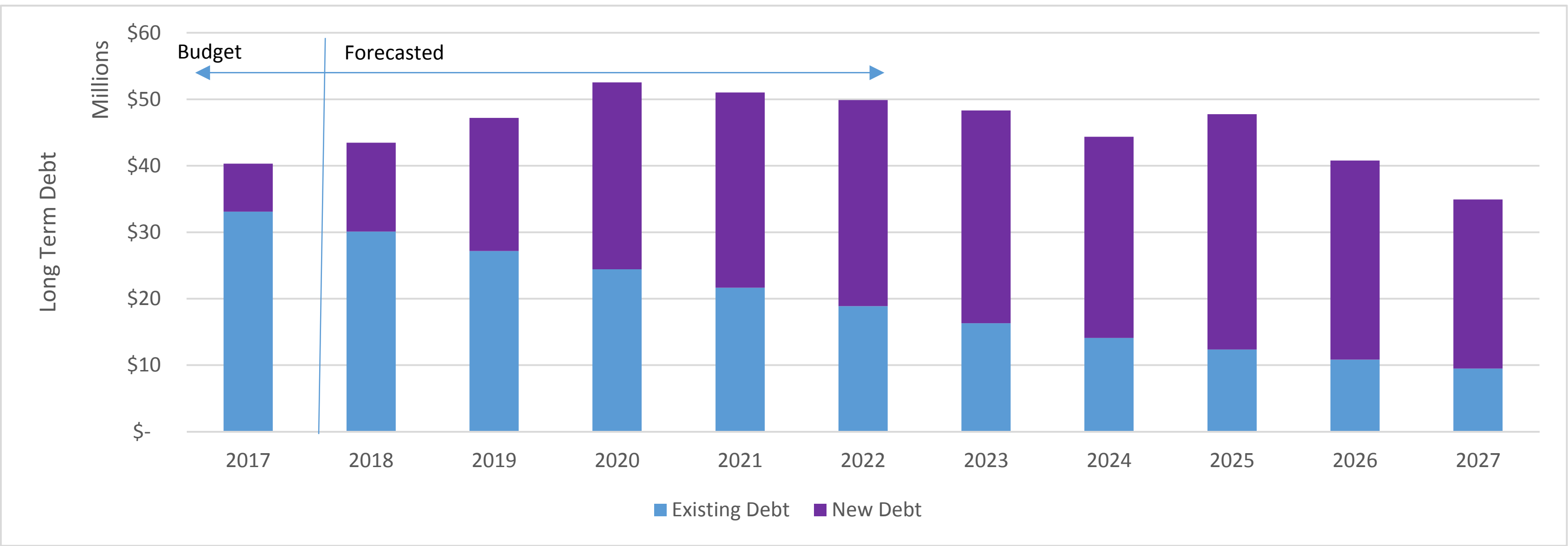


Projected Long Term Debt

The City has a total of $36.2 million in outstanding debt at the beginning of the 2017 fiscal year, with an additional $61 million in new debt issued over the next ten years. Significant capital expenditures include:

• Municipal Works Yard Project (2018-2025)	$30.5 million
• Arts Centre (2025)	$6.0 million
• New Fire Hall (2020)	$5.0 million
• Cornwall Police Fleet and Dispatch (2018 - 2023)	$2.9 million
• Cornwall Transit Buses (2018 - 2023)	$2.5 million
• Municipal Works Fleet (2018 – 2020)	$2.4 million
• Artificial Turf (Football Field) (2022 – 2023)	$2.1 million

Projected Long Term Debt



Project Overview

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Introduction and Context

Introduction

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Introduction and Context

Project Principles

- Developing a strong and clear financial model that can identify the financial impact of current programs and services, and the impact of changing the assumptions related to matters within the City’s control e.g. reducing service levels or increasing borrowing.
- The active participation of the management team to encourage the development of a financial strategy and policies that reflect the values and priorities of the City.
- Ensuring that City staff have a detailed understanding of the model so as to support its continued usage over the long-term.
- Ensuring that relevant policies are aligned with the direction outlined in the financial plan and appropriately guide decision making into the future.

Project Scope

- **Project Initiation**: Meet with the Project Team to clarify expectations, refine lines of inquiry, and develop a subsequent work program for the engagement;
- **Insight**: Conduct a comprehensive document review and interview key stakeholders. Develop process flow chart summarizing the current financial planning process for the City. Benchmark the City against five comparators on key financial indicators. Conduct a preliminary financial analysis of the City’s position.
- **Process and Model Design**: Develop design principles to establish how the City’s long term financial vision will be accomplished. Develop a protocol for establishing priorities and identify key assumptions that will be incorporated into the financial model. Prepare a draft financial model in MS Excel. Review and recommend appropriate financial policies.
- **Final Report**: Develop and present a final report incorporating the results of all phases of work. Present the financial plan to the Council of the City of Cornwall.

Project Overview

Introduction and Context

Work Plan and Progress Report

This engagement commenced on December 12, 2016 and will be completed when the final report is submitted to the City on or before June 30, 2017. The diagram below depicts the key phases as outlined in the Project Charter.

1. Meet with Project Team to clarify expectations, refine lines of inquiry, and develop a subsequent work program for the engagement.

2. Collect relevant information on current financial/capital plans, conduct preliminary financial analysis and review current financial processes.

3a. Establish financial vision and design principles, process design and prioritization framework.

3b. Develop planning assumptions and prepare draft financial model for testing and review.

4. Develop and present a final report & recommendations.

Project Overview

Stakeholder Engagement

Perspectives on the City's current and long term financial position were gained through interviews with 24 City Staff identified by the Finance Department. In addition, the City's departments and divisions supplied to KPMG long term operating and capital plans for their review.

Name	Position/Department	Name	Position/Department
Maureen Adams	Chief Administrative Officer	Steve Wintle	Infrastructure Planning
Mark Boileau	GM Planning, Development & Recreation	Micheal Fawthrop	Infrastructure Planning
Myles Cassidy	GM Shared Services	Denis Lalonde	Infrastructure Planning
Geoff Clarke	GM Corporate Services	Bill DeWit	Municipal Works
Pierre Voisine	Fire Chief	Dave Bigelow	Municipal Works
John St. Marseille	GM Infrastructure & Municipal Works	Neil Dixon	Municipal Works
Tracey Bailey	GM Financial Services	Len Tapp	Transit Services
Paul Scrimshaw	Deputy Treasurer	Jean Marcil	Transit Services
Jamie Fawthrop	Recreation Services	Ron Condie	Transit Services
Richard Bourdeau	Recreation Services	Owen O'Keefe	Environmental Services
Norm Quenneville	Glen-Stor-Dun Lodge	Pat Carrierre	Environmental Services
Alex Herrington	Glen-Stor-Dun Lodge	Nicole Robertson	Environmental Services

Background

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About Cornwall

About Cornwall

The City of Cornwall located on the St. Lawrence river 100 kilometres to the west of Montreal and south of Ottawa, provides municipal services to approximately 47,000 people within its urban boundaries. With its 1,600 acre business park including one of Eastern Canada's largest logistics clusters, Cornwall is expected to continue its shift from an industrial city to a diversified economy. The City's success with logistics is based upon its access to major transportation corridors (port of entry to the U.S. and the 401 highway) and its low cost of electrical power and real estate.

As a separated city, Cornwall provides both traditional lower tier municipal services (roads, recreation, planning, fire, solid waste management, economic development) and upper tier services (water/sewer, transit, policing, social services). To deliver these services, the City depends upon a workforce of approximately 700 full-time employees and 300 part-time/seasonal employees. Cornwall is also the County Seat for the United Counties of Stormont, Dundas and Glengarry.

Quality of life is especially important for the City of Cornwall. The Pembina Institute recently ranked Cornwall as the number one city in Ontario for air quality. Its location next to the St. Lawrence river naturally encourages a wide range of water based recreation opportunities for all ages. And, like many former industrial cities, the cost of housing is particularly low in comparison to communities in the Greater Toronto Area. Cornwall is a fully bilingual community because of its geographic location next to the province of Quebec. It is not surprising that Cornwall was ranked as one of the premier retirement communities in Canada by Canadian Living Magazine. Cornwall is viewed as one of Eastern Ontario's growing economies, with a quality of life second to none.

As the City of Cornwall moves forward with its strategic initiatives on quality of life, the economy, the environment and good governance, the completion of a long term financial plan is a key initiative in achieving those goals.

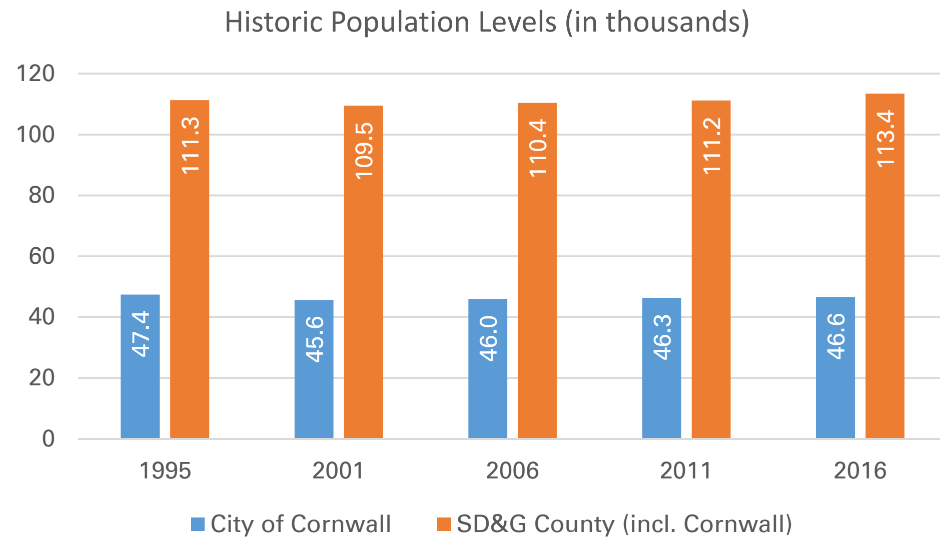
Background

Population Growth

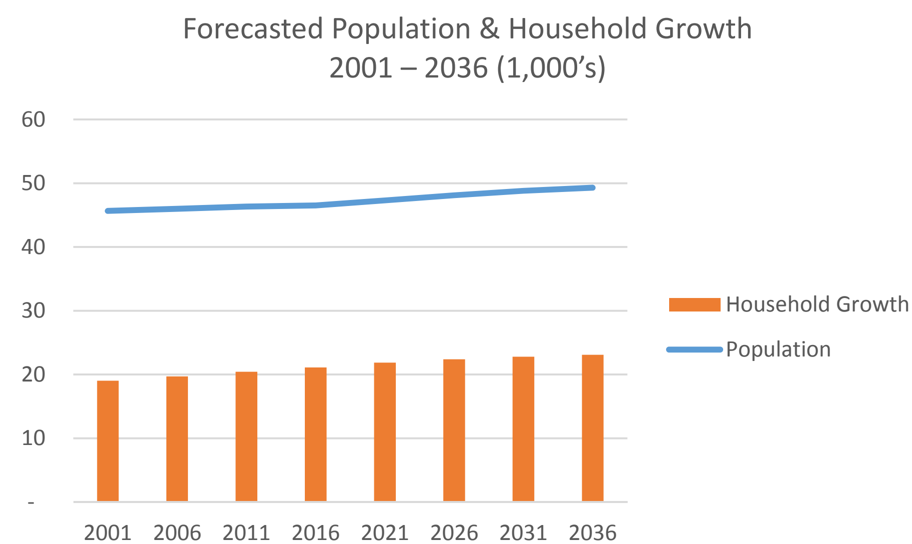
The absence of significant growth in the City's population base poses a challenge from a financial sustainability perspective as the total number of taxpayers is not anticipated to increase at the same rate as the City's operating and capital costs. As such, the total tax burden for the City's residents will likely increase over the duration of the long-term financial plan, which may give rise to affordability concerns.

Statistics Canada census information indicates that the City experienced a 2% decrease in its total population between 1996 and 2016. The absence of population growth in the City reflects the experience of the Counties of SD&G including Cornwall as a whole, which experienced a significant population decrease between 1996 and 2016.

Looking forward, the population projections prepared by Watson & Associates for the City's Development Charge Study indicate that population levels for the City will increase by 3.2% over the period 2017 to 2027. The number of households is expected to grow by approximately 1,353 households (6.5%) in the same period of time.



Source: https://www12.statcan.gc.ca/census-recensement/2016



Source: Watson & Associates Draft Development Charge Study

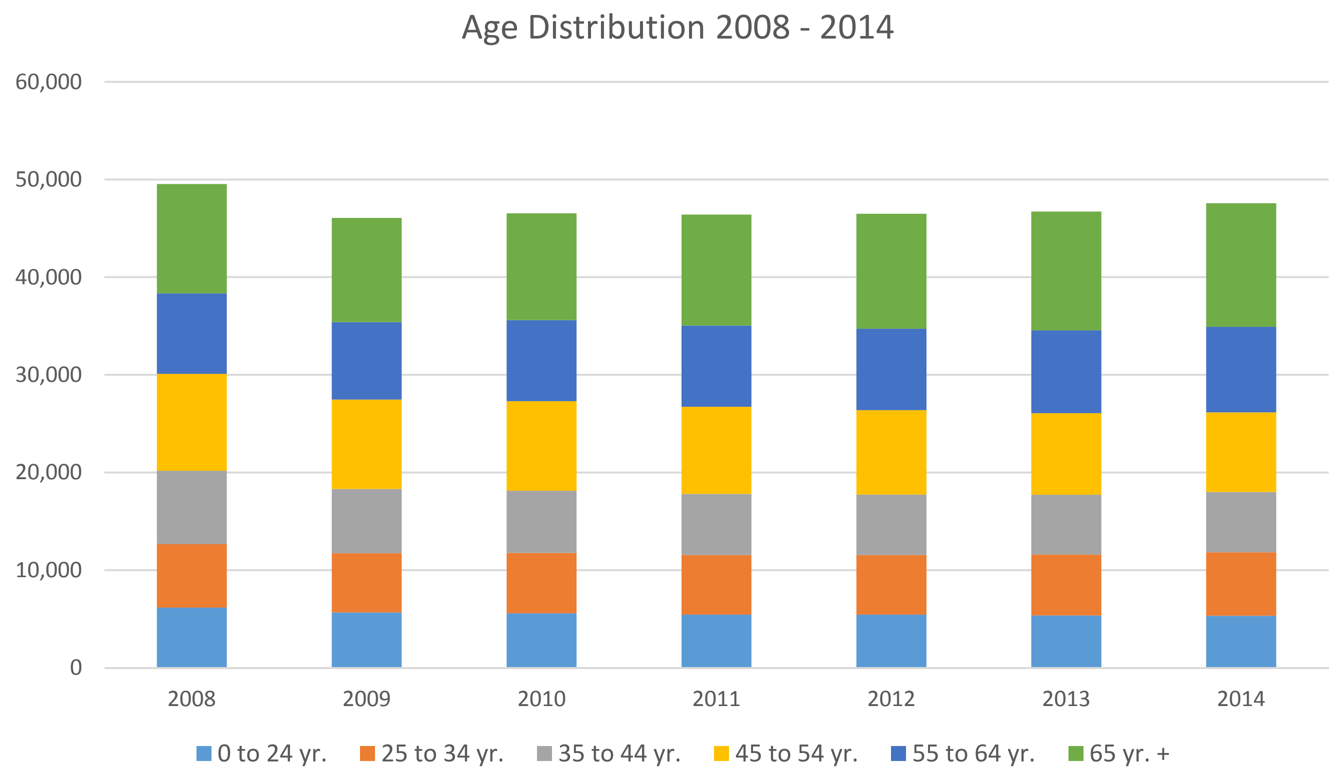
Background

Age Demographics

The latest Statistics Canada census data indicates that the City population below the age of 55 years decreased from 2008 to 2014.

In the same period, the number of residents age 55 and greater, increased by 1.7%.

This demographic trend impacts the type of services delivered by the City, their associated service levels and the capacity of residents to pay for municipal services.



	0 to 24 yr.	25 to 34 yr.	35 to 44 yr.	45 to 54 yr.	55 to 64 yr.	65 yr. +
Average Annual Change 2008 - 2014	-2.3%	0.0%	-3.1%	-3.2%	1.1%	2.1%

Source: Stat Can

Source: http://www5.statcan.gc.ca/cansim/a26

Background

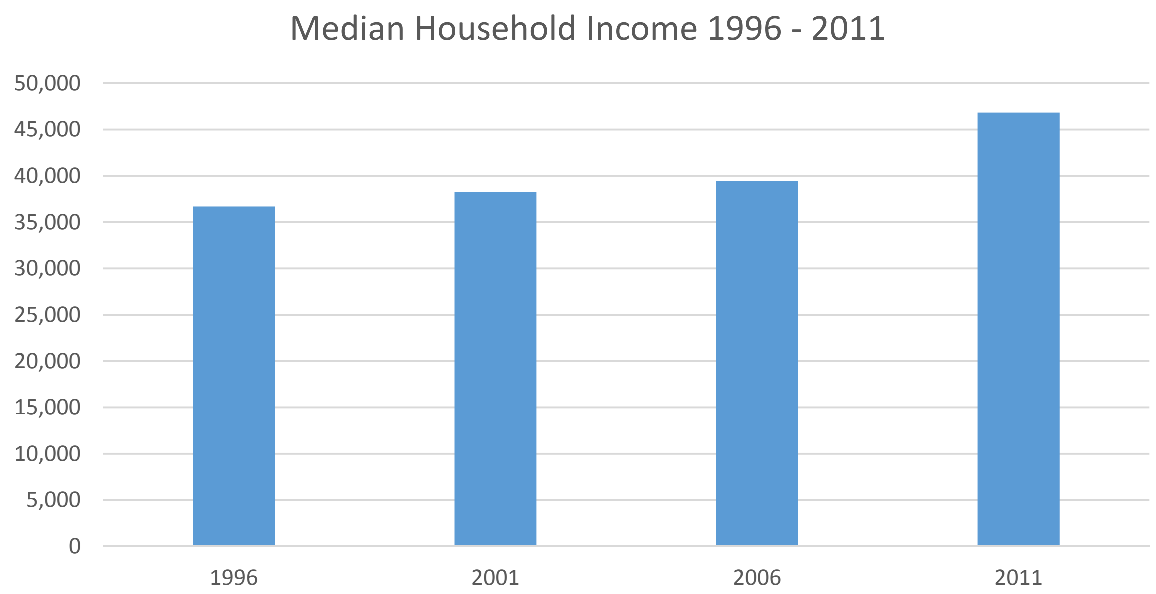
Household Income

The latest Statistics Canada census data shows that the City's median household income increased by 1.65% from 1996 to 2011.

The increase in median household income, however, from 2006 to 2011 was 3.51% - a substantial increase in comparison to the historic trend.

This shows the capacity of City households to afford an increase in the municipal levy is increasing.

Nevertheless, Cornwall is substantially below the median household income for the province ($73,290) and country ($76,000), however, it is an affordable community in comparison to other jurisdictions.



	1996 to 2001	2001 to 2006	2006 to 2011
Average Annual Change	0.84%	0.60%	3.51%

Source: http://www12.statcan.gc.ca/census-recensement/2011/dp-pd/prof/details/page.cfm?Lang=E&Geo1=CSD&Code1=3501012&Geo2=PR&Code2=01&Data=Count&SearchText=cornwall&SearchType=Begins&SearchPR=01&B1=All&Custom=&TABID=1
http://www12.statcan.gc.ca/census-recensement/2006/dp-pd/92-596/P1-2.cfm?Lang=eng&T=CSD&PRCODE=35&GeoCode=01012&GEOLVL=CSD&TID=0

Long Term Financial Planning

Definition

As defined by the Government Finance Officers Association ('GFOA'), long-term financial planning combines financial forecasting and strategizing and in doing so, allows municipalities to address future issues by developing and evaluating different financial scenarios. More formally, financial planning involves '*the process of projecting revenues and expenditures over a long-term period, using assumptions about economic conditions, future spending scenarios and other salient variables*' thereby allowing municipalities to '*align City finances with long-term service objectives*'.

Recommended by the GFOA as a best practice, the City has embarked on the preparation a long-term financial plan that is intended to establish a series of principles and policies that will guide its financial management over the ten year planning period. In addition to forecasting operating and capital requirements and associated sources of funding, the long-term financial plan also forms the basis for financial policies for the City's budgeting, capital financing and reserve and reserve fund management.

Long Term Financial Plans Explained

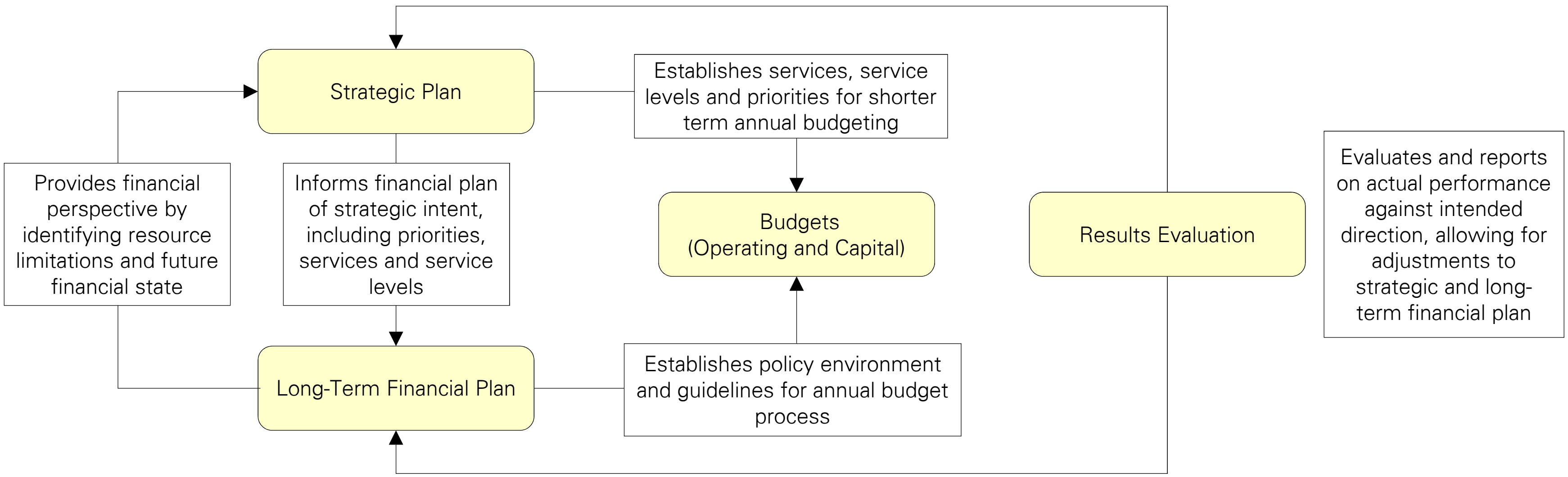
Together with the City's strategic plan, annual budgets, asset management plan and water/wastewater plans, the long-term financial plan is intended to be a component of the City's planning, budgeting and evaluation cycle, which is intended to:

- Identify services and service levels for City residents, thereby establishing strategic intent;
- Incorporate financial principles into the City's overall planning process, ensuring that the City's financial planning does not compromise long-term perspective by overly focusing on near term pressures;
- Prioritize financial investments based on long-term forecasts, thereby ensuring priorities are identified and appropriately funded;
- Ensuring consistency and discipline in the financial planning and budgeting processes by establishing policies for financial decision-making; and
- Contributing towards continuous improvement by establishing and reporting on financial performance indicators.

A graphical depiction of the linkage between the various components of the City's financial planning, budgeting and evaluation cycle is provided on the following page.

Background

Linkage Between Strategic and Operational



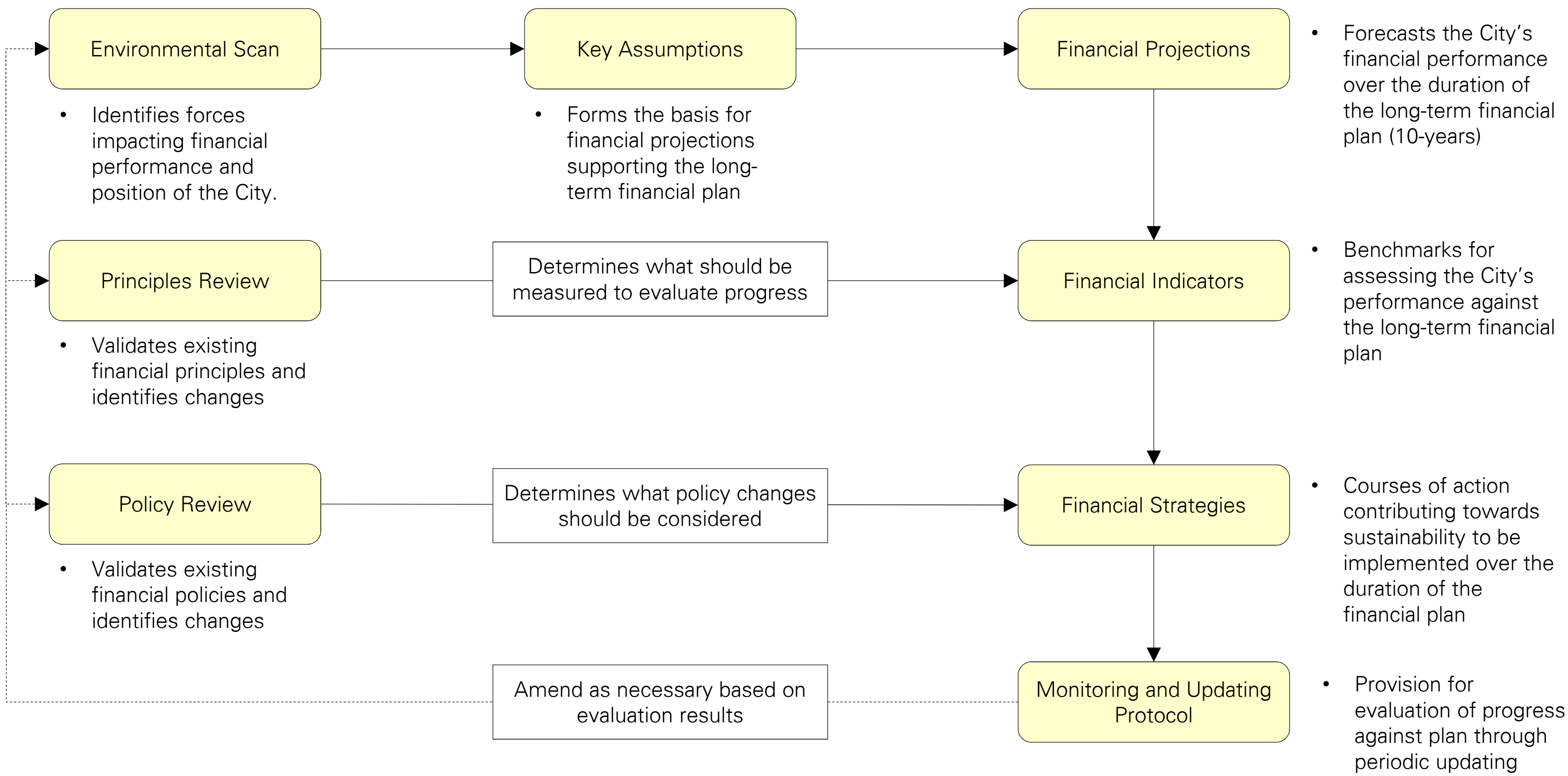
	Strategic Plan	**Long-Term Financial Plan**	**Budgets (Operating and Capital)**
Organizational vision	●	○	○
Long-term forecasting (revenue, expenditures, capital, debt, reserves)	○	●	◐
General environmental scan	●	○	○
Fiscal environment analysis	○	●	○
Service demand planning	◐	◐	◐
Service prioritization	●	○	●
Resource allocation	○	○	●
Management planning	○	○	●

○ Does not address ◐ Partially addresses ● Fully addresses

Background

Long Term Financial Plan Components

As discussed in more detail in this report, the long-term financial plan is comprised of the following major components.



Summary of Current Financial Position

City of Cornwall
Long Term Financial Plan
Final Report

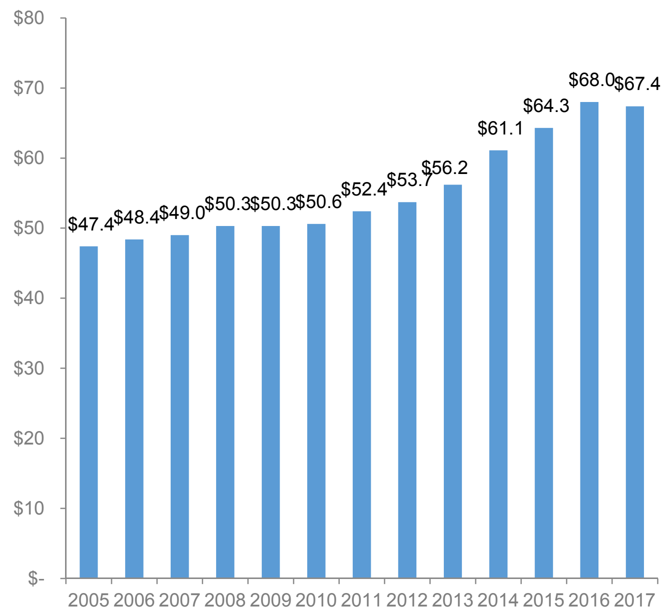
Overview of the City's Financial Performance

The City's 2017 budget reflects a total municipal levy of $67.4 million.

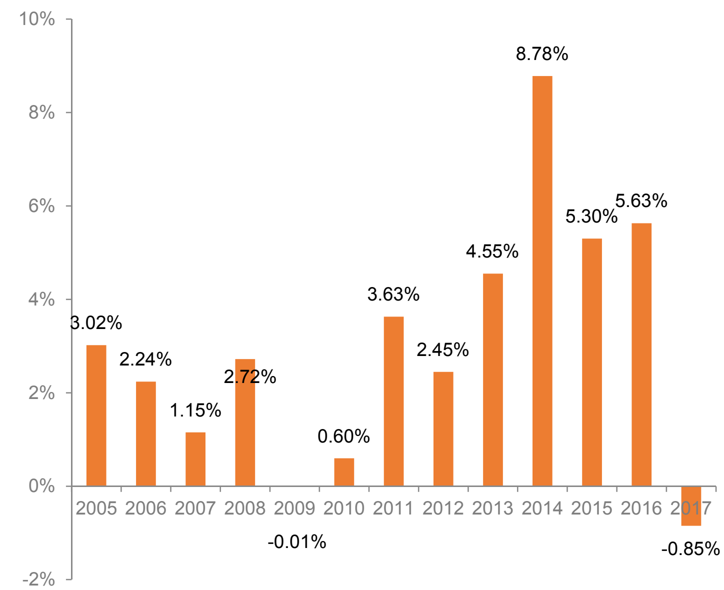
Over the period of 2005– 2017, the City's municipal levy (including growth) has increased by an average of $1.65 million or 3.0% per year. In comparison, the Ontario Consumer Price Index increased on average 2.1% annually since 2005,[1] reflecting the increasing cost of local government services and the growth in the City's physical operations and assets.

It is important to note, however, that the annual increases in the City's municipal levy have fluctuated from year to year, with a large annual increase experienced during 2014 (8.78%) and decrease in 2017 (-0.85 %). While these changes are probably due to supplemental assessment that is included at year end, the leading practice for tax policy is to levy increases that are steady and predictable over a five to ten year period. This builds confidence and sustainability in the City's financial plan from residential, commercial and industrial ratepayers.

Total municipal levy (including growth) – 2005 to 2017 (millions of dollars)[2]



Annual Change in Municipal Levy (including growth) – 2005 to 2017[2]



[1]Source – Statistics Canada, Consumer Price Index Ontario, Historical Summary
[2] Source – Municipal Financial Information Returns (Schedules 22 & 24)

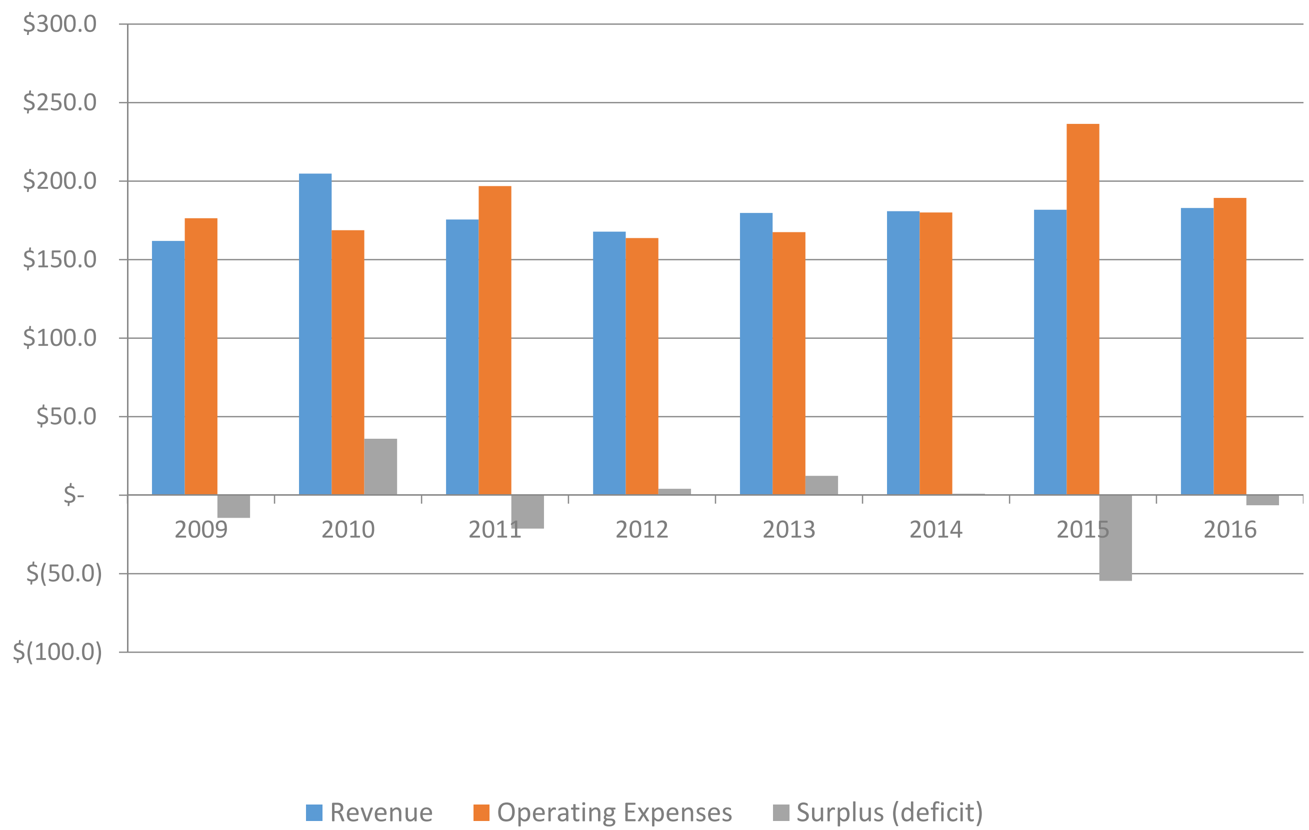
Summary of Current Financial Position

Reported Operating Results (In Millions)

Municipalities in Canada are not allowed to budget for a deficit in their operational budgets. Nonetheless, if we look at their financial statements we can understand if the municipality is financing budget deficits through the use of reserves or debt financing.

Over the short-term the financing of budget deficits is sustainable, but prolonged use of reserves or debt will place a municipality in a financially exposed position.

In the case of Cornwall, the City has recorded a deficit for four of the past eight years indicating the City has had some financial sustainability challenges.

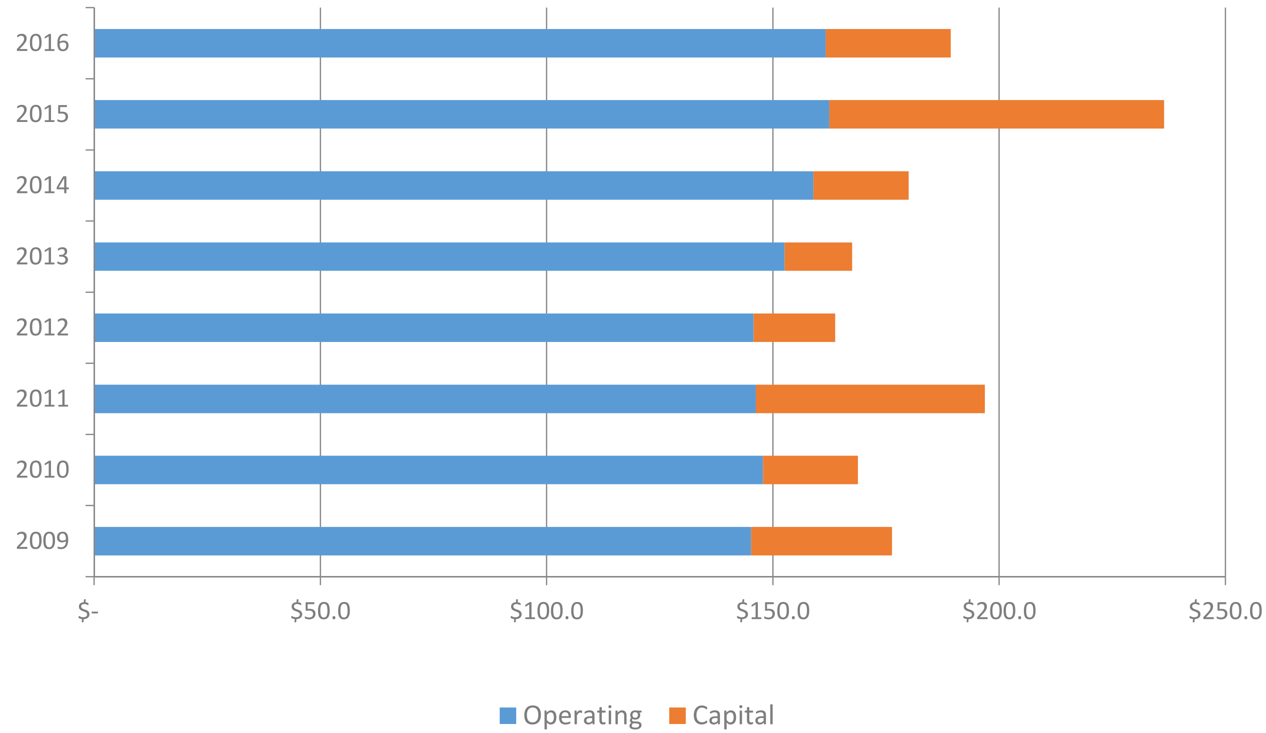


Source: City of Cornwall Financial Statements

Summary of Current Financial Position

Operating & Capital Expenditures (In Millions)

Similar to many municipalities across Ontario and Canada, capital expenditures increased in 2011 as a result of stimulus funding. The Federal and Provincial Governments offered significant grant programs under the Stimulus Fund to bring the national economy out of the 2008 recession. Notably, the City made a large investment in capital infrastructure (buildings, machinery equipment, and water and wastewater infrastructure).

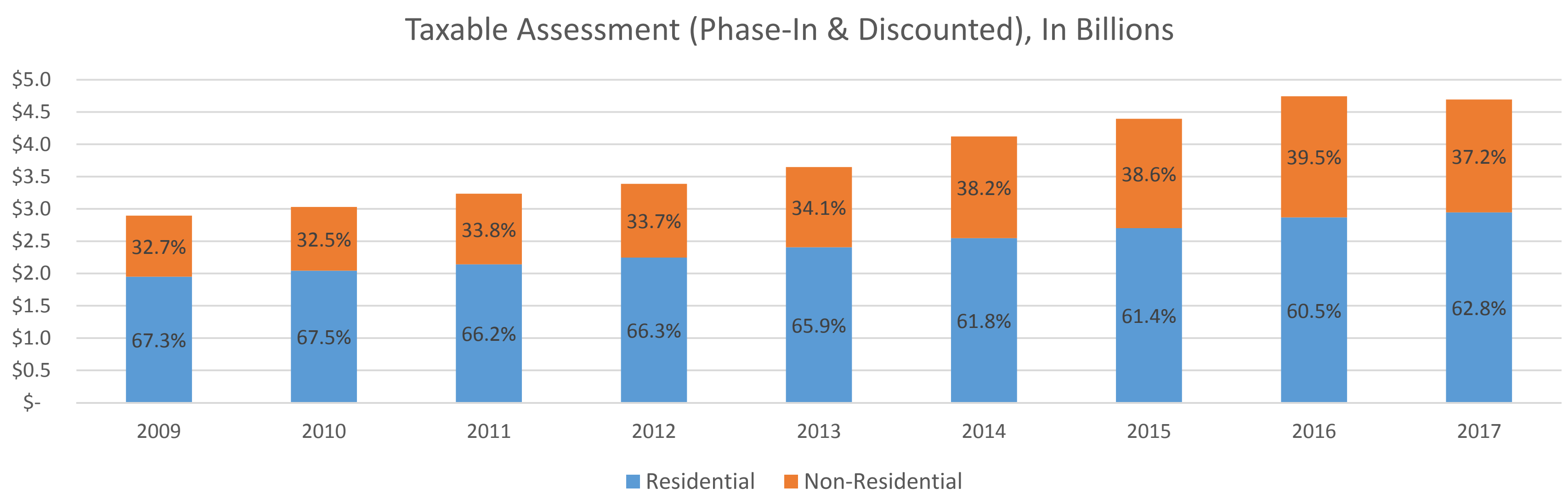


Source: City of Cornwall Financial Statements

Summary of Current Financial Position

Assessment Shift

From 2009 to 2016, the City experienced a shift in composition of its total taxable assessment base, with non-residential assessment accounting for 39.5% in 2016 compared to 32.7% in 2009 (an average shift of 1.0% per year). This change in assessment base represents the equivalent of $3.7 million in municipal taxes shifted from residential to non-residential taxpayers. In 2017, successful assessment appeals of non-residential properties reduced the City's non-residential assessment resulting in a 2.3% shift back to residential properties.



Source: City of Cornwall Financial Information Return Schedule 26

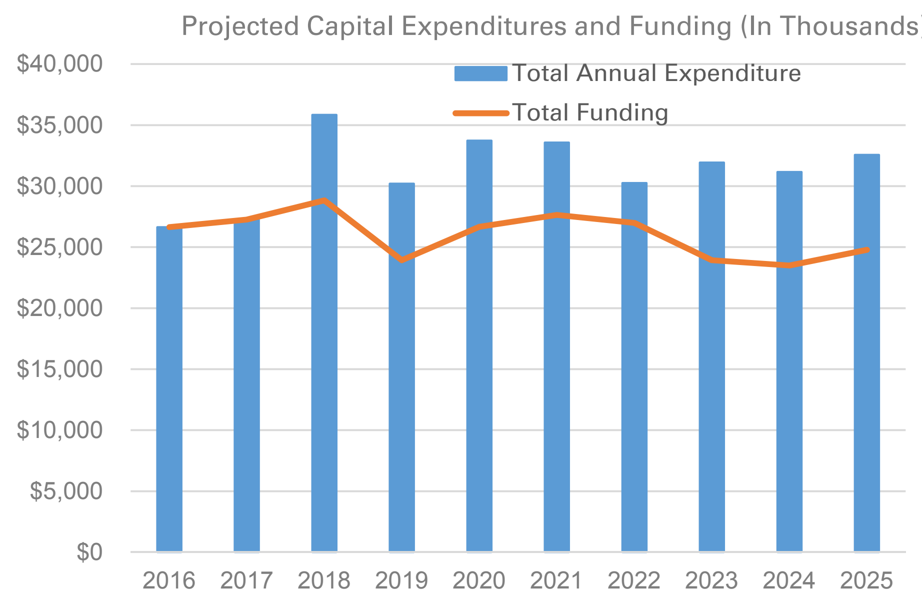
In addition to changes in the relative assessed values of residential and non-residential properties as determined by the Municipal Property Assessment Corporation ('MPAC'), the shift between residential and non-residential tax classes is also impacted by ongoing assessment appeals. Commercial and industrial appeals involve much higher assessments, require longer time frames to settle, and have a higher degree of complexity and risk. At any time, up to ten per cent of the City's assessment base can be involved in property tax appeals which may represent a significant financial risk. As a contingency to the exposure of property assessment at risk, the City budgets annually for tax write-offs and has set up a Tax Stabilization Reserve as a means to add consistency to the level of taxation.

Summary of Current Financial Position

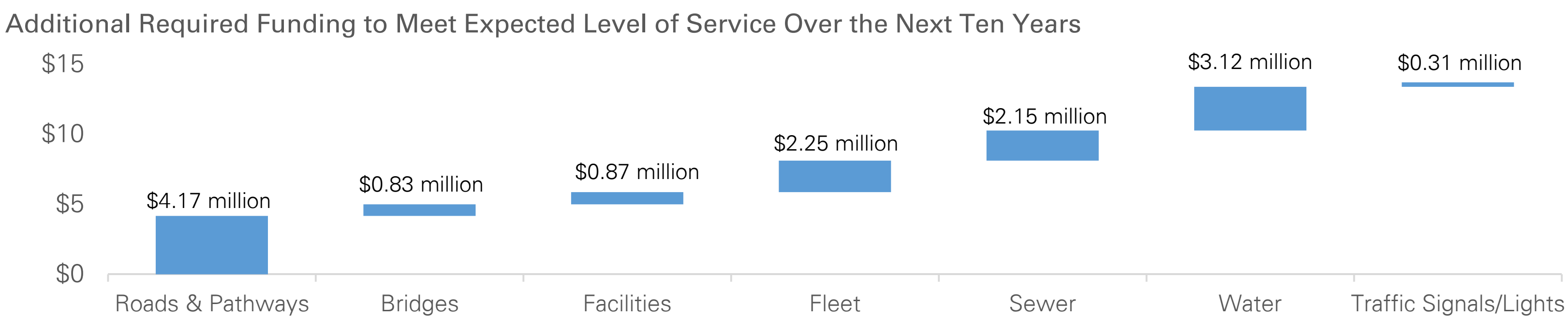
Infrastructure Investment Requirements

The City's recently completed asset management plan has identified a total of $313 million in forecasted capital expenditures to 2025, the largest component of which ($227 million) relates to tax supported assets. Over the same period, the City anticipates $260 million in capital financing, of which $45 million consists of gas tax revenue, grants or County contributions. While the asset management plan anticipates a $53 million funding shortfall ($260 million in capital financing vs. $313 million in anticipated spending), it also identifies potential strategies for closing any capital funding deficit, including but not limited to capital project deferrals, service level reductions (which will free up operational funding for capital purposes) and the use of debt.

In addition to the funding shortfall associated with the current 10-Year budget forecast for taxed based assets, water, sewer ($53 million), additional funding in the amount of $13.7 million is required to achieve the desired level of service. The level of service funding shortfall in the 10-Year budget forecast is $4.1 million.



Source: City of Cornwall AMP, November 2016



Source: City of Cornwall AMP, November 2016

Debt Management

The City's debt position has shifted significantly over the past 15 years. The City held approximately $23 million of debt in 2000, however this was offset by a Debt Retirement Reserve Fund arising from the sale of Cornwall Electric in 1998. In practical terms this meant that Cornwall was debt free until approximately 2007. Since that time, the City has begun to incur new debt for a variety of purposes (capital projects and minor asset purchases) so that at year end 2016 the debt position was $36.2 million.

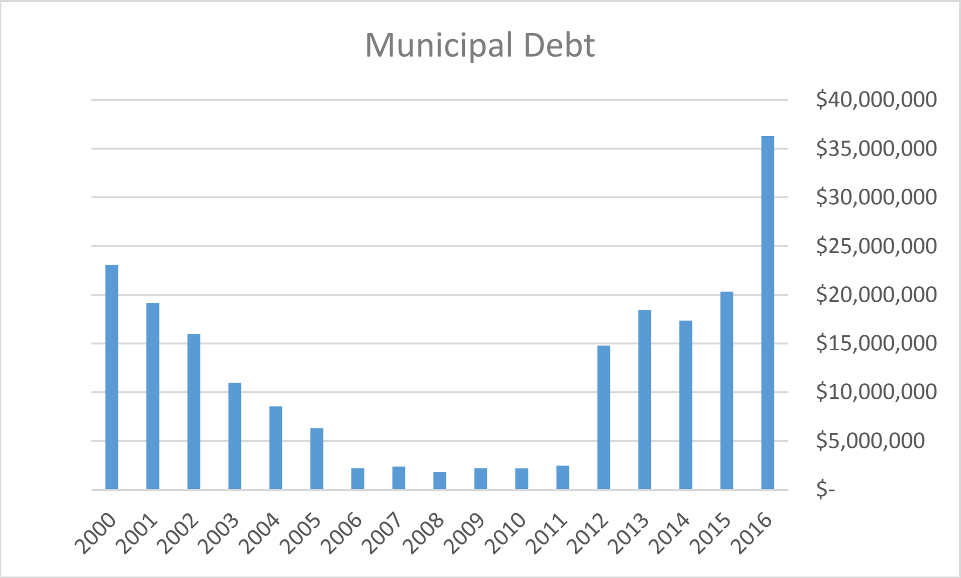
The City's current debt charges (interest and principal payments) at 2016 year end amount to approximately $2.9 million or 4.2% of the municipal levy.

This demonstrates the economic advantage of implementing a capital levy. From 2007 until 2011 the value of the City's debt charges and a 1% capital levy would have been approximately equal. In 2012, debt charges began a steady climb until they are more than 3% of the capital levy.

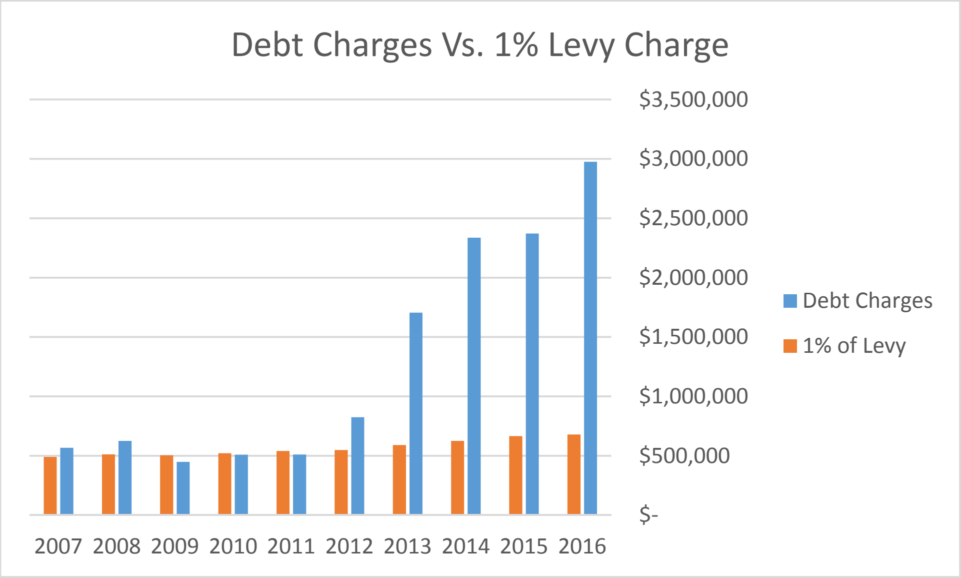
If a 1% capital levy had been applied in 2007 when there was tax room, the accumulated capital reserve would total $5.7 million by the end of 2016 based upon an average annual contribution of $567,519.

If a 2% capital levy had been applied in 2007, the accumulated capital reserve would total $11.3 million by the end of 2016 based upon an average annual contribution of $1.1 million.

While debt is critical for large capital projects like water and sewer assets, the use of a capital levy provides a City with fiscal flexibility and prevents it from becoming fiscally unsustainable.



Source: City of Cornwall Finance Dept.



Source: City of Cornwall Finance Dept.

Investments – Progress Fund

In 1998, Cornwall Electric was sold by the City for $68 million. The net proceeds from the sale were used to establish two Reserve Funds.

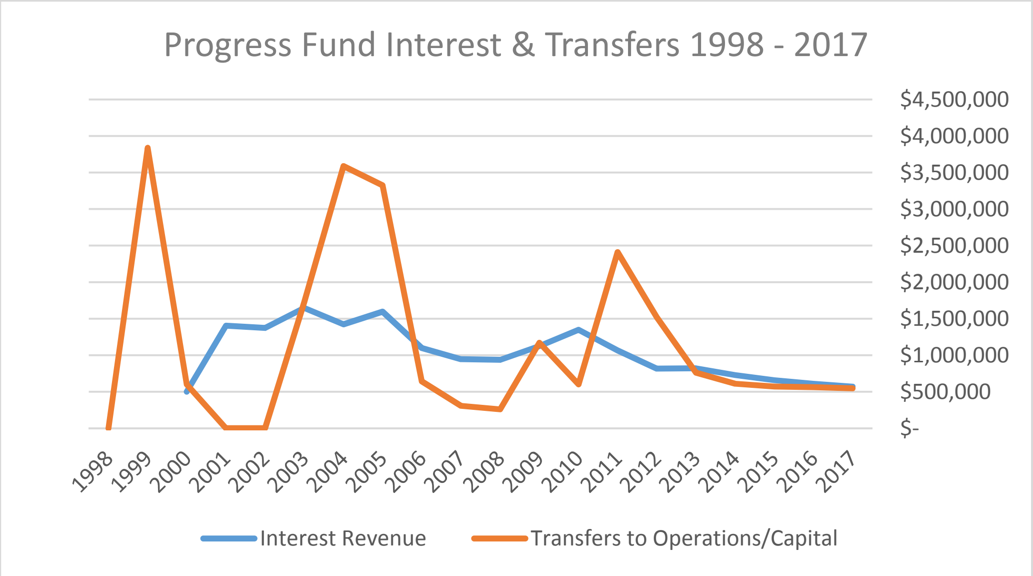
1. Debt Retirement Reserve Fund holding financial instruments with maturity dates and values that match the repayment obligations of the net long-term liabilities and interest payments that were funded from the tax rate. This reserve fund was dissolved in 2007 with the repayment of the City's long term debt.
2. Progress Reserve Fund holding financial instruments that will generate investment income to be used for the betterment of residents and to improve the quality of life for Cornwall citizens.

The Progress Fund balance has fluctuated according to interest rates since its establishment, but it has never gone below the principal amount of $25 million. Similarly, transfers from the fund have fluctuated depending upon available interest revenue and the demands of City projects.

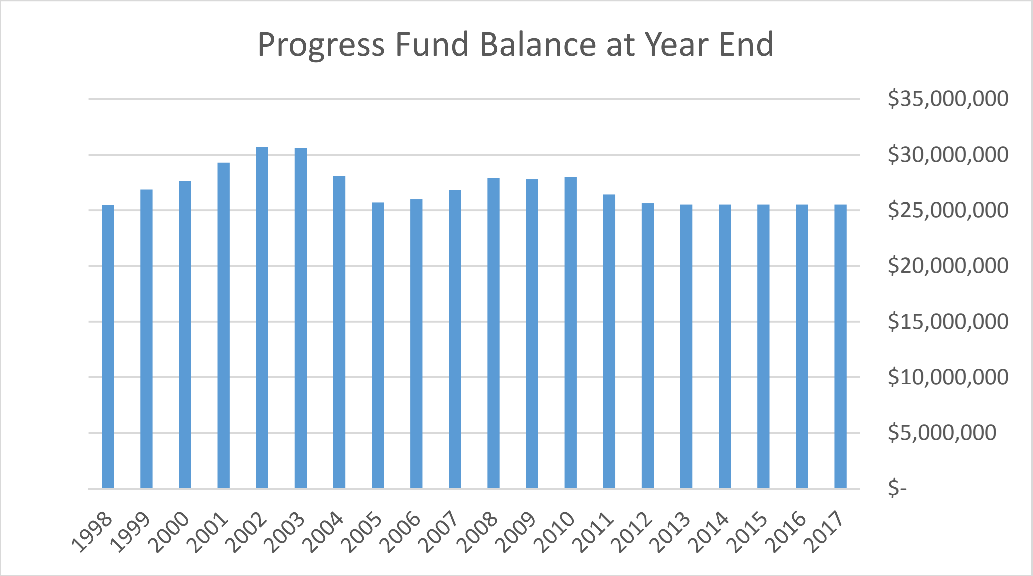
Since 2012, the expected interest income from the Progress Fund has been solely committed to finance the principal and interest payments of the bank loan related to the construction of the Benson Centre.

The principal and interest payments are expected to be $720,000 in 2017 which exceed the Progress Fund's annual interest payment of $550,000.

In total, since the Progress Fund's inception, approximately $18 million has been invested in the City to improve the quality of life for the betterment of Cornwall citizens.



Source: Financial Statements



Summary of Current Financial Position

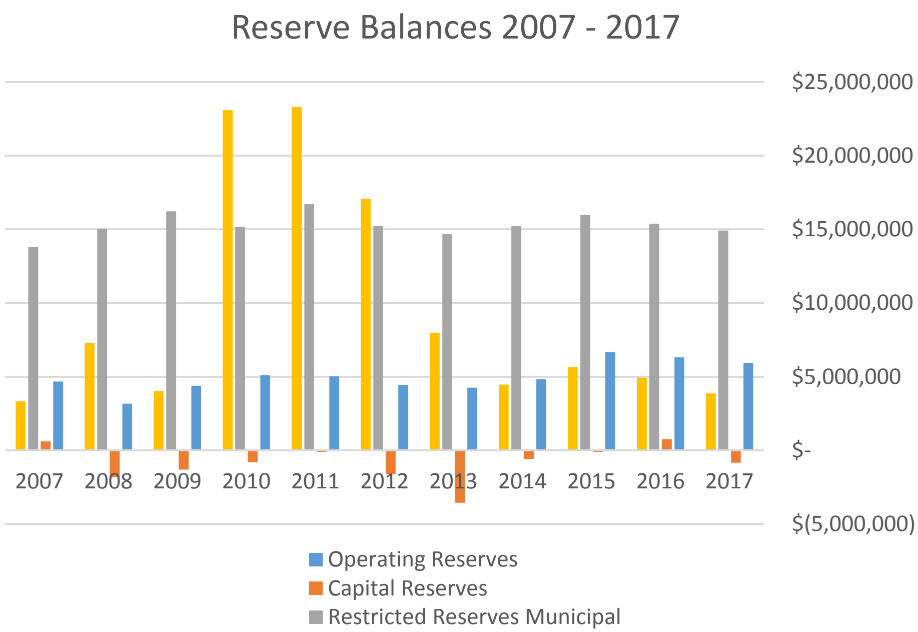
Reserves (Excluding Progress Fund)

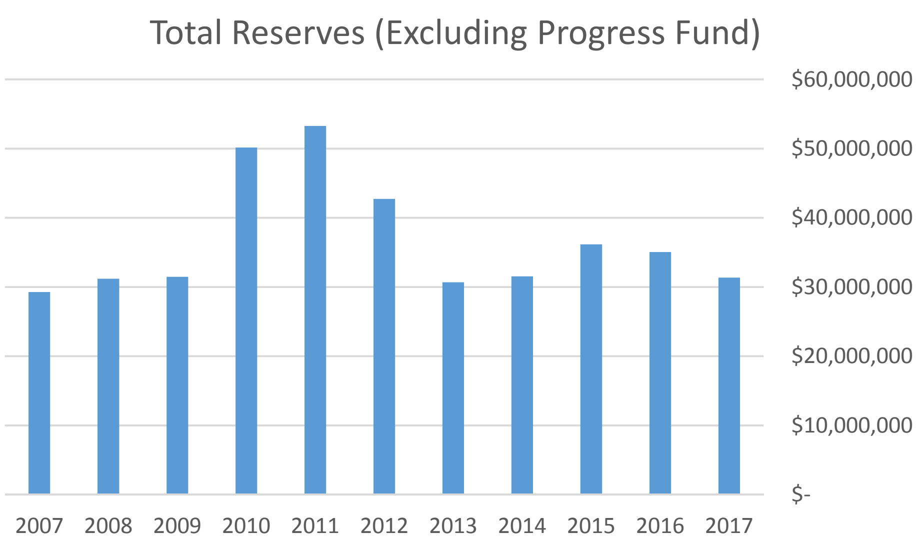
Reserves and reserve funds are comprised of funds set aside for specific purposes by Council and funds set aside for specific purposes by legislation, regulation or agreement. The City has numerous reserves and reserve funds that are consolidated into four main categories:

1. Operating Reserves – these reserves are established for operational purposes and typically carry small balances outside of working capital, tax stabilization and winter control reserves.
2. Capital Reserves – these reserves are established for the purchase of capital assets (land, facilities, equipment and machinery).
3. Restricted Reserves (Municipal) – these reserve funds are created for identified purposes and funded from specific revenue sources (e.g. water/sewer rates or building permits).
4. Restricted Reserves (External) – these reserve funds are similarly created for identified purposes from specific revenue sources external to the municipal corporation.

In general, the reserve and reserve fund balance has not grown significantly in the past ten years. Provincial funding ($18.3 million) for the secondary wastewater treatment plan was allocated to Restricted Reserve Funds (External) in 2010 and spent over the following three years.

The City charges a rental fee to City departments for the use of municipal facilities which in turn funds a building reserve. The City does not conduct life-cycle costing for the maintenance or replacement of municipal assets, such as, fleet, roads, water/sewer assets or structures.

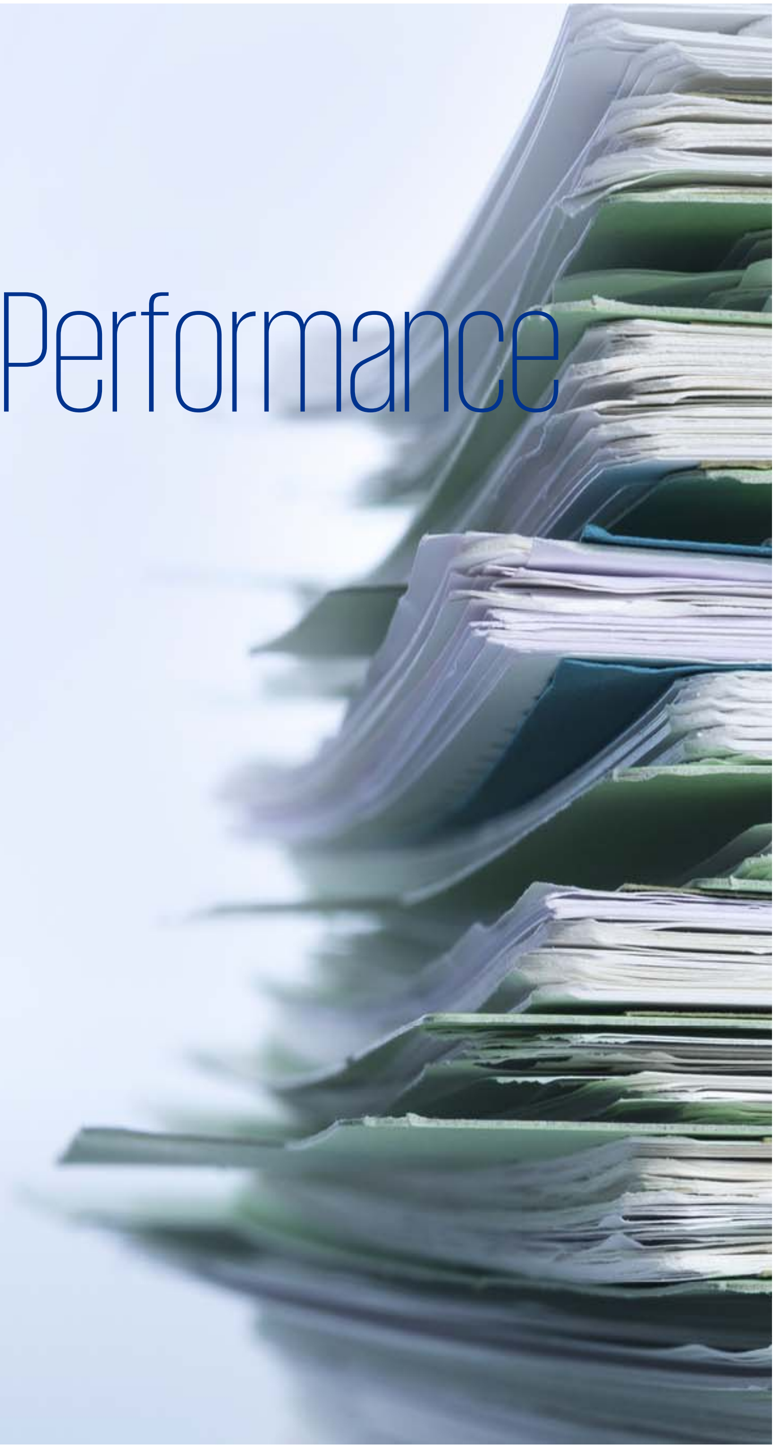




KPMG

Benchmarking & Performance Perspectives

City of Cornwall
Long Term Financial Plan
Final Report

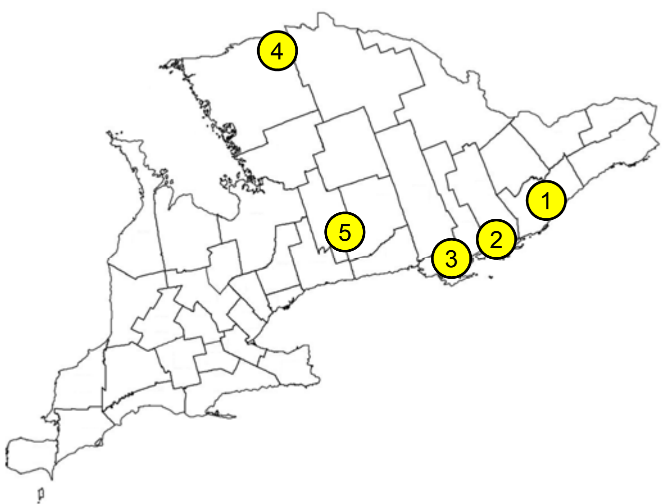


Benchmarking of Financial Indicators

As described earlier, financial indicators are a tool to assess how the City's financial performance compares against the long-term financial plan. In May 2009, PSAB released a Statement of Recommended Practice that provided guidance on how public sector bodies should report on indicators of financial condition. This guidance recommended that three factors, at a minimum, need to be considered:

- **Sustainability** – the degree to which the Municipality can deliver services and meet its financial commitments without increasing its debt or tax burden relative to the economy in which it operates
- **Flexibility** – the Municipality's ability to increase its available sources of funding (debt, taxes or user fees) to meet increasing costs.
- **Vulnerability** – the extent to which the Municipality is dependent on sources of revenues, predominantly grants from senior levels of government, over which it has no discretion or control.

In addition, the benchmarking of financial indicators allows the City to understand the financial performance of its comparators and identify how the City is financially positioned relative to its comparators. For the purposes of the project, five comparator communities were selected as municipal comparators based on population, growth, urban/rural characteristics and geography:

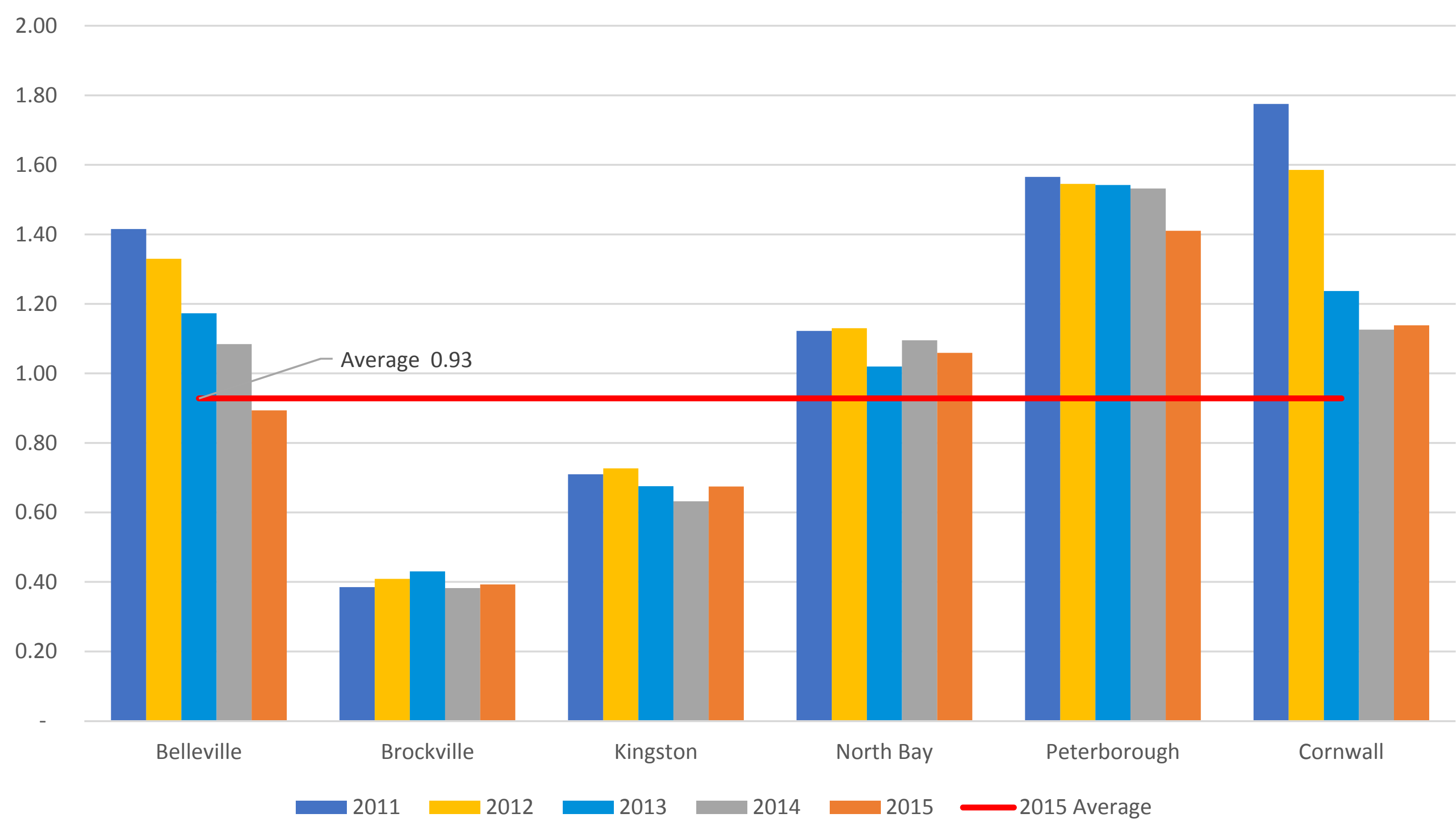


Municipality	Population	Households	Area Square KM[1]	Density (Households /Square KM)
1. Brockville	21,870	10,794	21	520
2. Kingston	128,572	55,466	450	123
3. Belleville	49,454	21,065	247	85
4. North Bay	53,651	23,257	315	74
5. Peterborough	78,700	36,136	59	617
6. Cornwall	46,340	21,871	62	354
Average	63,097	28,098	218	134

Financial Assets to Financial Liabilities

This financial indicator provides an assessment of the City's solvency by comparing financial assets (including cash, investments and accounts receivable) to financial liabilities (accounts payable, deferred revenue and long-term debt). Low levels of financial assets to financial liabilities are indicative of limited financial resources available to meet cost increases or revenue losses.

In 2015, Cornwall had a Financial Assets to Financial Liabilities ratio of 1.14. It sits above the comparator average of 0.93, indicating that relative to its peers Cornwall has enough financial resources available to meet most solvency challenges.

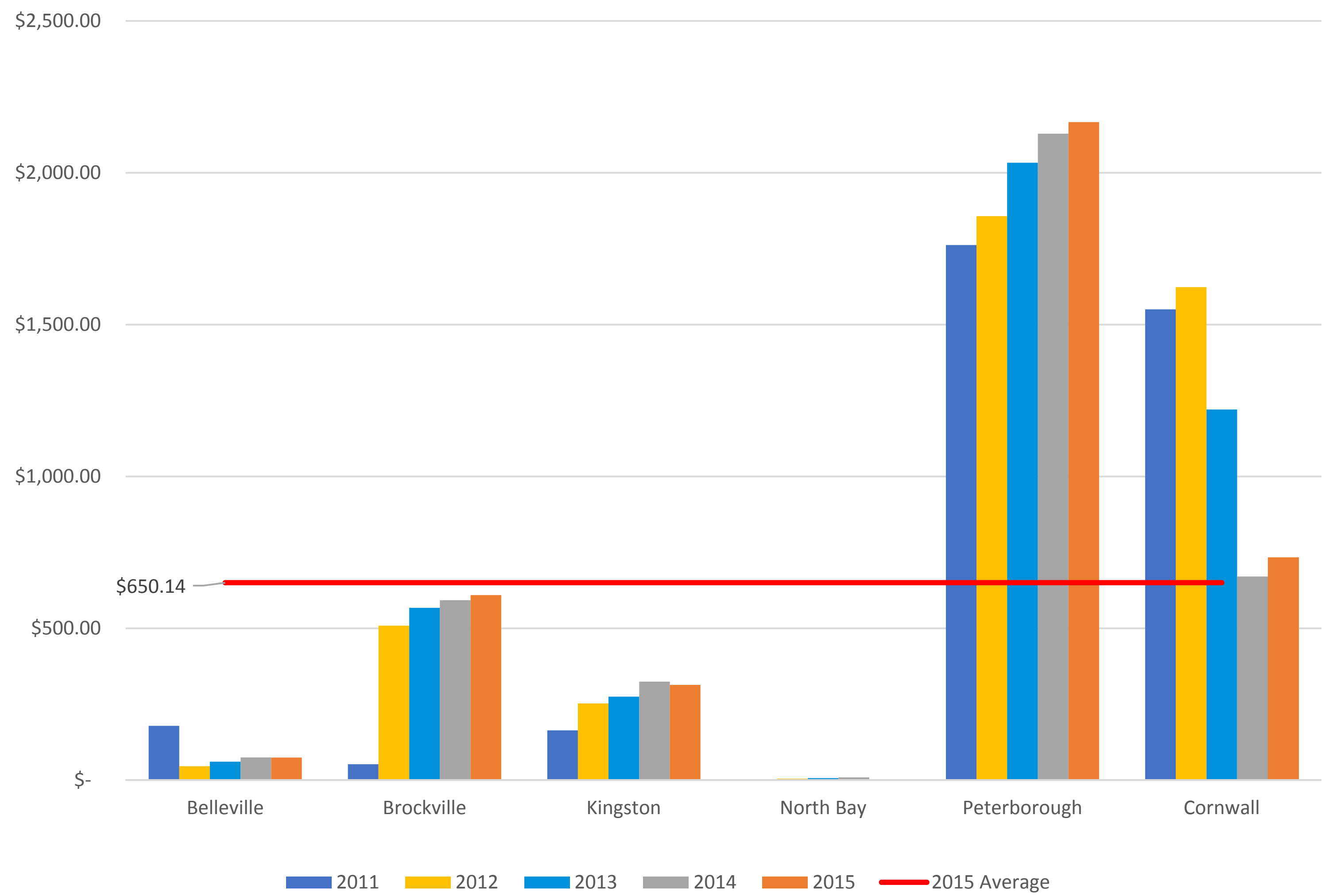


Source – KPMG analysis of annual Financial Information Returns, Schedule 70
Equation = SLC 70 9930 01 / SLC 70 9940 01

Total Unrestricted Reserves per Household

This financial indicator provides an assessment of the City's ability to absorb incremental expenses or revenue losses through the use of reserves and reserve funds as opposed to taxes, user fees or debt. Low levels of reserve are indicative of a limited capacity to deal with cost increases or revenue losses, requiring the City to revert to taxation or user fee increases or the issuance of debt

In 2015, Cornwall had $733 in reserve and reserve funds per household which is above the comparator average.

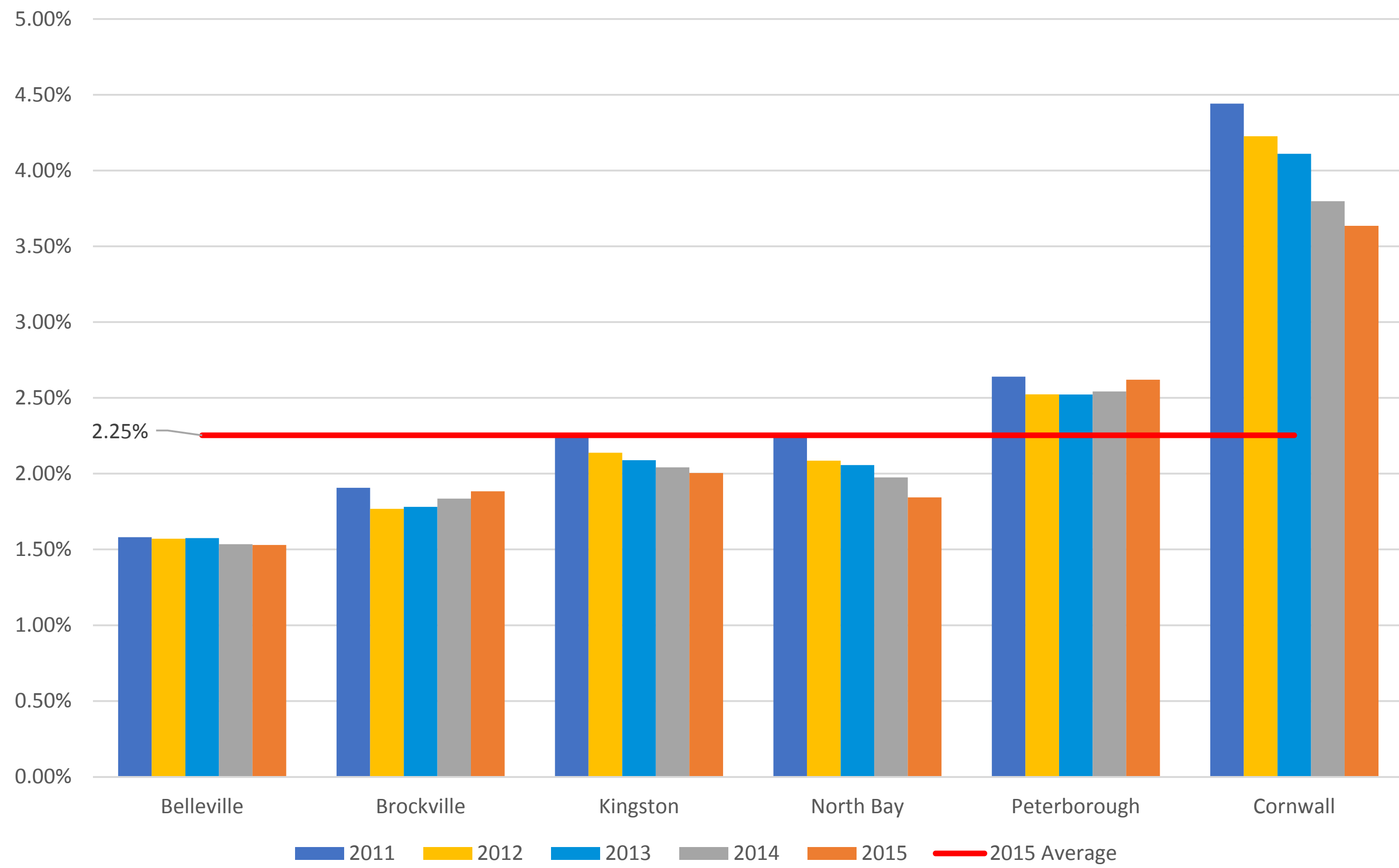


Source – KPMG analysis of annual Financial Information Returns, Schedule 60 and 2
Equation = SLC 60 0299 03 / SLC 02 0040 01

Total Operating Expenses as a Percentage of Taxable Assessment

This financial indicator provides an assessment of the City's solvency by determining the extent to which increases in operating expenses correspond with increases in taxable assessment.

In 2015, Cornwall's total operating expenses were 3.64% of taxable assessment. Though above the municipal average, this indicator has decreased continually since 2011.

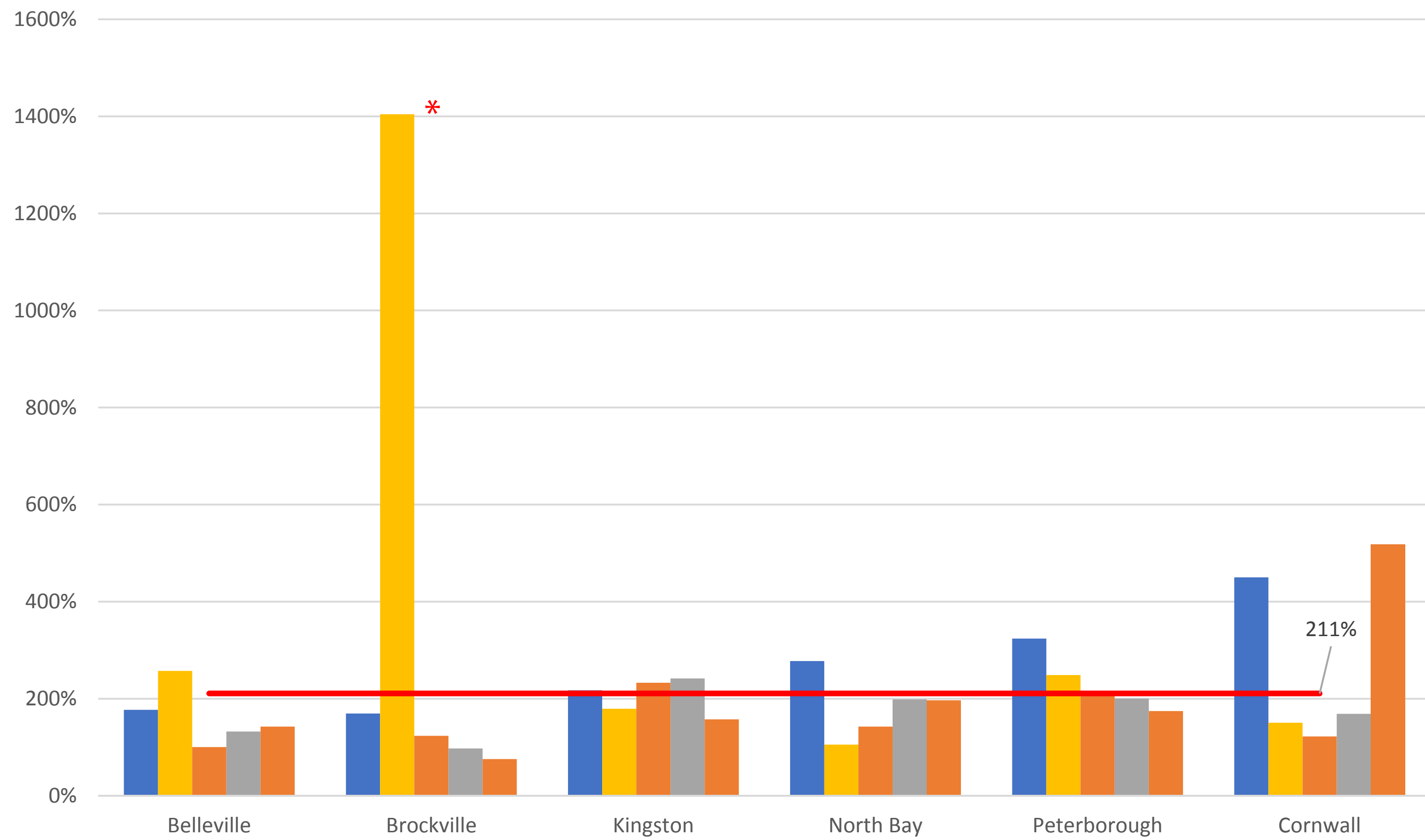


Source – KPMG analysis of annual Financial Information Returns, Schedule 26 & 40
Equation = (SLC 40 9910 07 – SLC 40 9910 16)/(SLC 26 9199 17 + SLC 26 9299 17)

Capital Additions as a Percentage of Amortization Expense

This financial indicator provides an assessment of the City's solvency by assessing the extent to which it is sustaining its tangible capital assets. In the absence of meaningful reinvestment in tangible capital assets, the City's ability to continue to deliver services at the current levels may be compromised.

In 2015, Cornwall scored higher in this indicator than in previous years indicating a greater investment in capital assets, additions and betterments. Nonetheless, the City is substantially behind its comparators with this financial indicator.



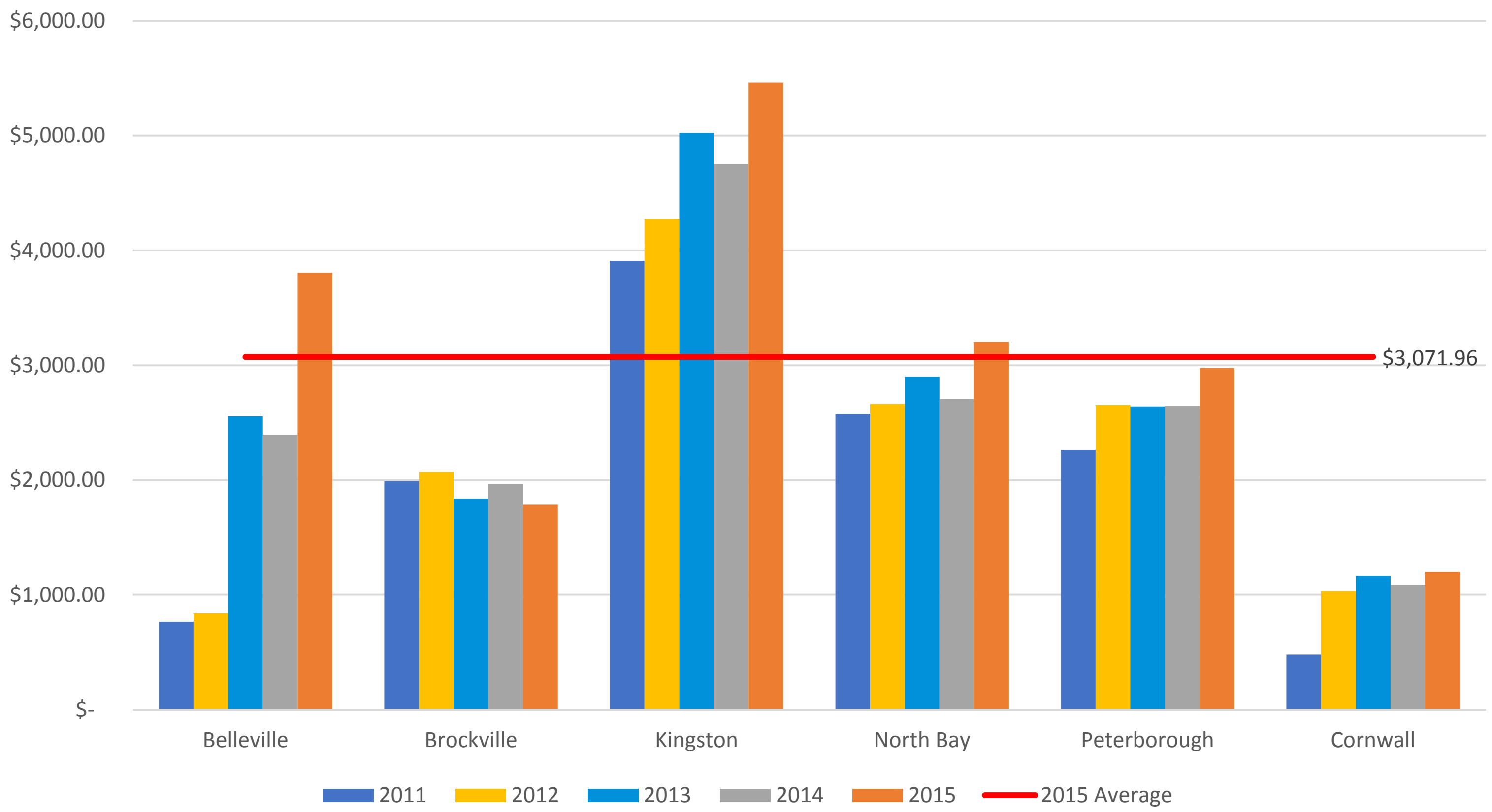
* This value is an outlier and may represent a substantial increase in capital assets, additions and betterments in 2012

Source – KPMG analysis of annual Financial Information Returns, Schedule 50 and 51
Equation = SLC 51A 9910 03 / SLC 40 9910 16

Total Debt per Household

This financial indicator provides an assessment of the City's ability to issue more debt by considering the existing debt loan on a per household basis. High debt levels per household may preclude the issuance of additional debt.

Cornwall had an average household debt of $1,200 in 2015. Low debt per household levels indicates the City has flexibility in the use of debt as a financing tool.

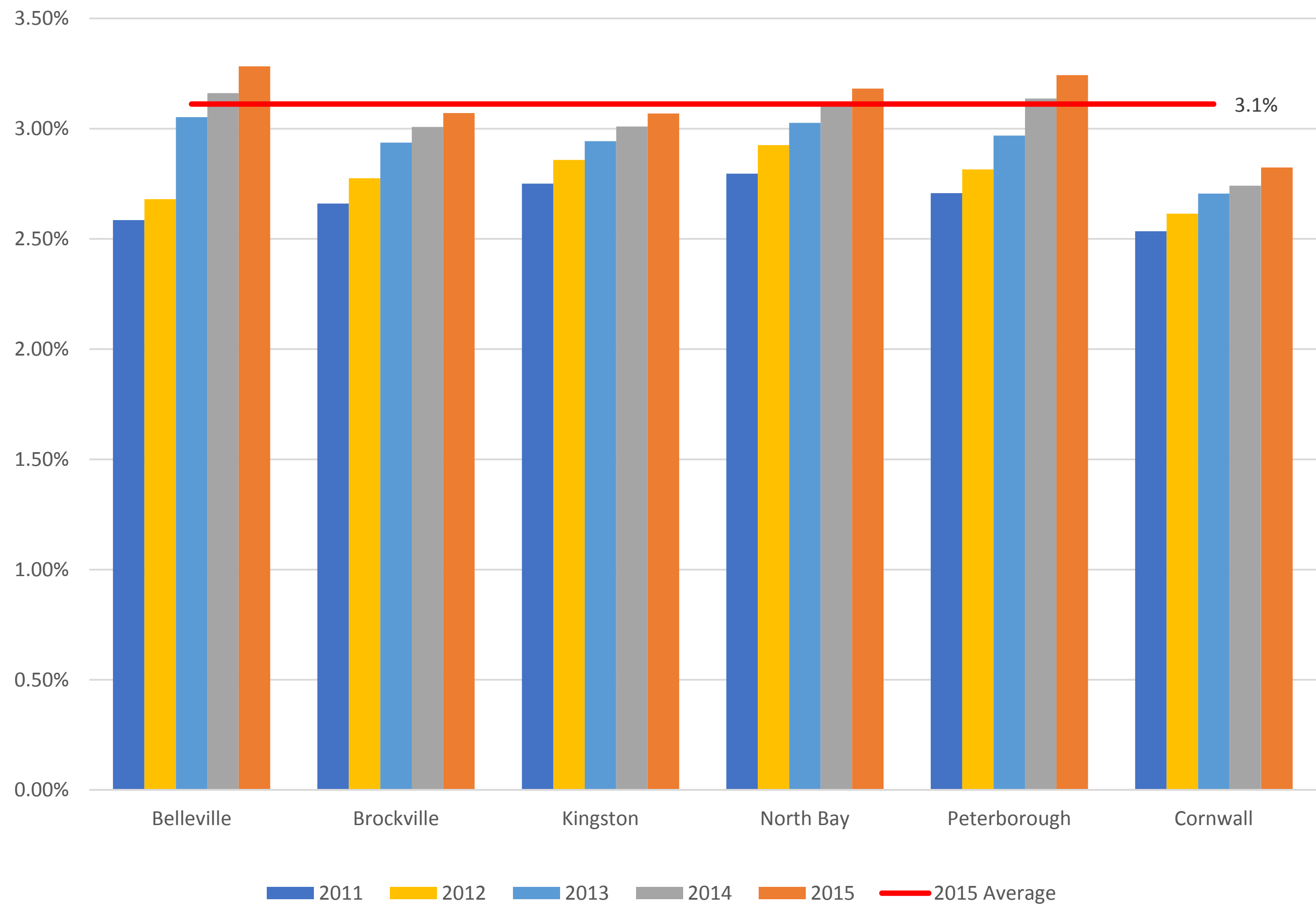


Source – KPMG analysis of annual Financial Information Returns, Schedule 70 and 2
Equation = SLC 70 2699 1 / SLC 03 0040 01

Residential Taxation as a percentage of Household Income

This financial indicator provides an indication of potential affordability concerns by calculating the percentage of total household income used to pay municipal property taxes.

This indicator provides information on the average household spend on residential taxes. With a 2015 spend of 2.82% of household income, Cornwall's residential taxation as a percentage of household income is lower in comparison to its peers.



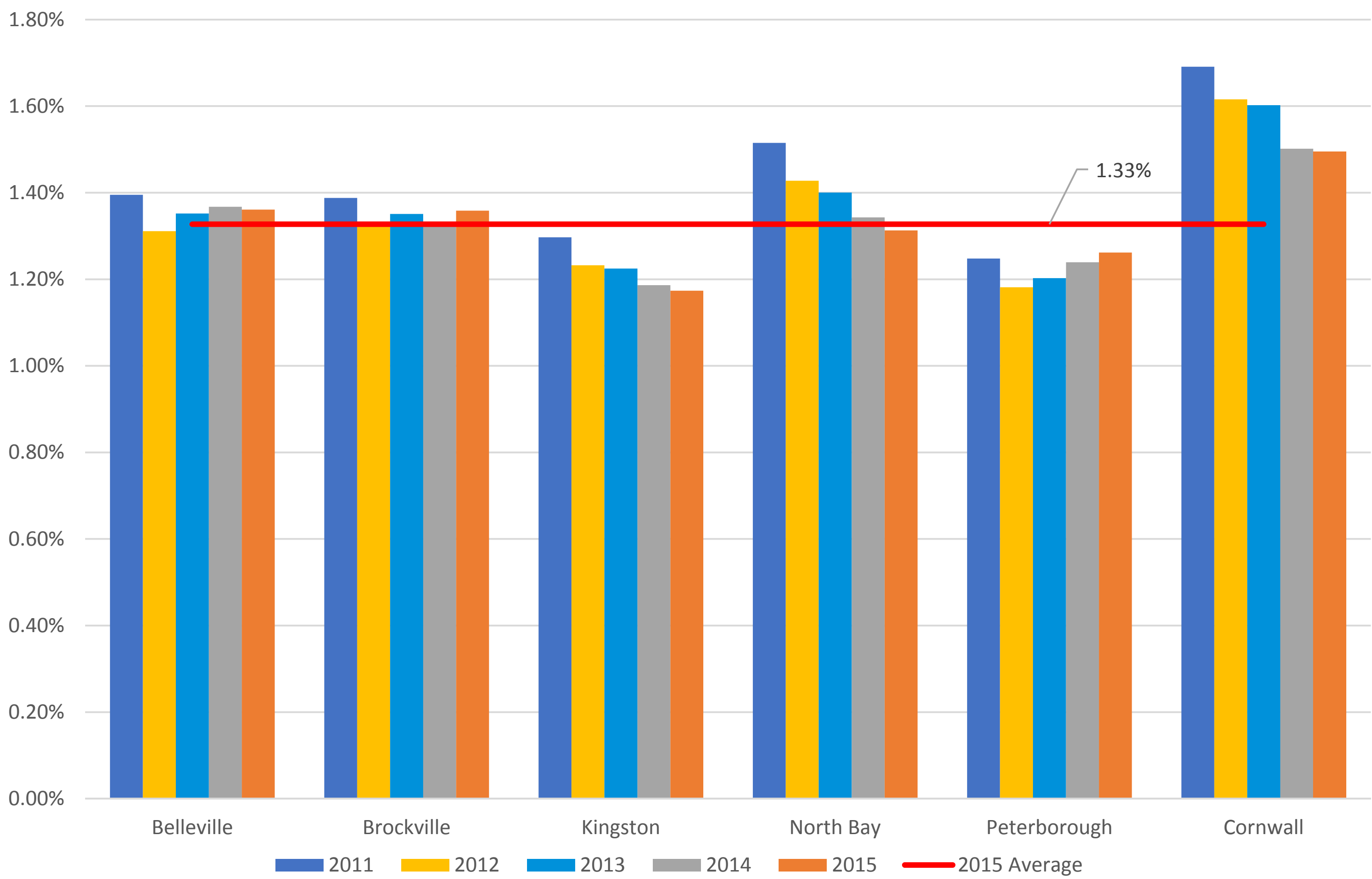
Source – KPMG analysis of annual Financial Information Returns, Schedule 2 & 26; http://www12.statcan.gc.ca/census-recensement/2011/dp-pd/index-eng.cfm
Equation = (SLC 26 0010 04 + SLC 26 0010)/(SLC 02 0040)/ (2010 Average Household Income)

Total Taxation as a Percentage of Total Assessment

This financial indicator provides an indication of potential affordability concerns by calculating the City's overall rate of taxation. Relatively high tax levy requirements as a percentage of total assessment may limit the City's ability to generate incremental revenues in the future.

This indicator will not address affordability issues that may apply to individual property classes (e.g. commercial).

Relative to its comparators, the City has a high tax levy requirement as a percentage of total assessment which may limit the City's ability to generate incremental revenues in the future.

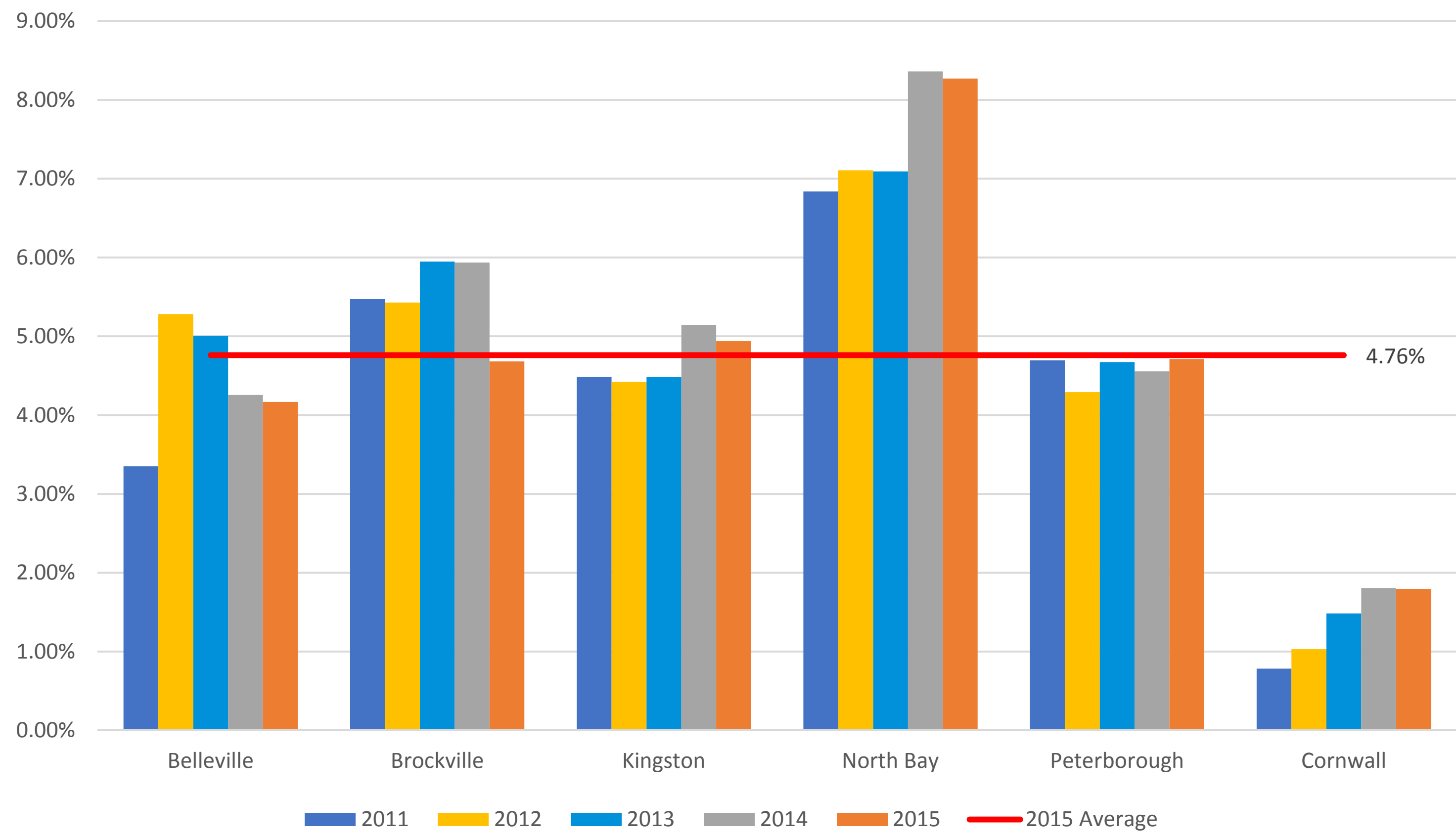


Source – KPMG analysis of annual Financial Information Returns, Schedule 26
Equation = (SLC 26 9199 4 + SLC 26 9299 4) / (SLC 26 9199 17 + SLC 26 9299 17)

Debt Servicing Costs (Interest and Principle) As a Percentage of Total Revenues

This financial indicator provides an indication as to the City's overall indebtedness by calculating the percentage of revenues used to fund long-term debt servicing costs. The City's ability to issue additional debt may be limited if debt servicing costs on existing debt are excessively high.

In 2015, Cornwall spent 1.79% of total revenue to fund long-term debt servicing costs. This indicates the City has flexibility in the use of debt as a financing tool.

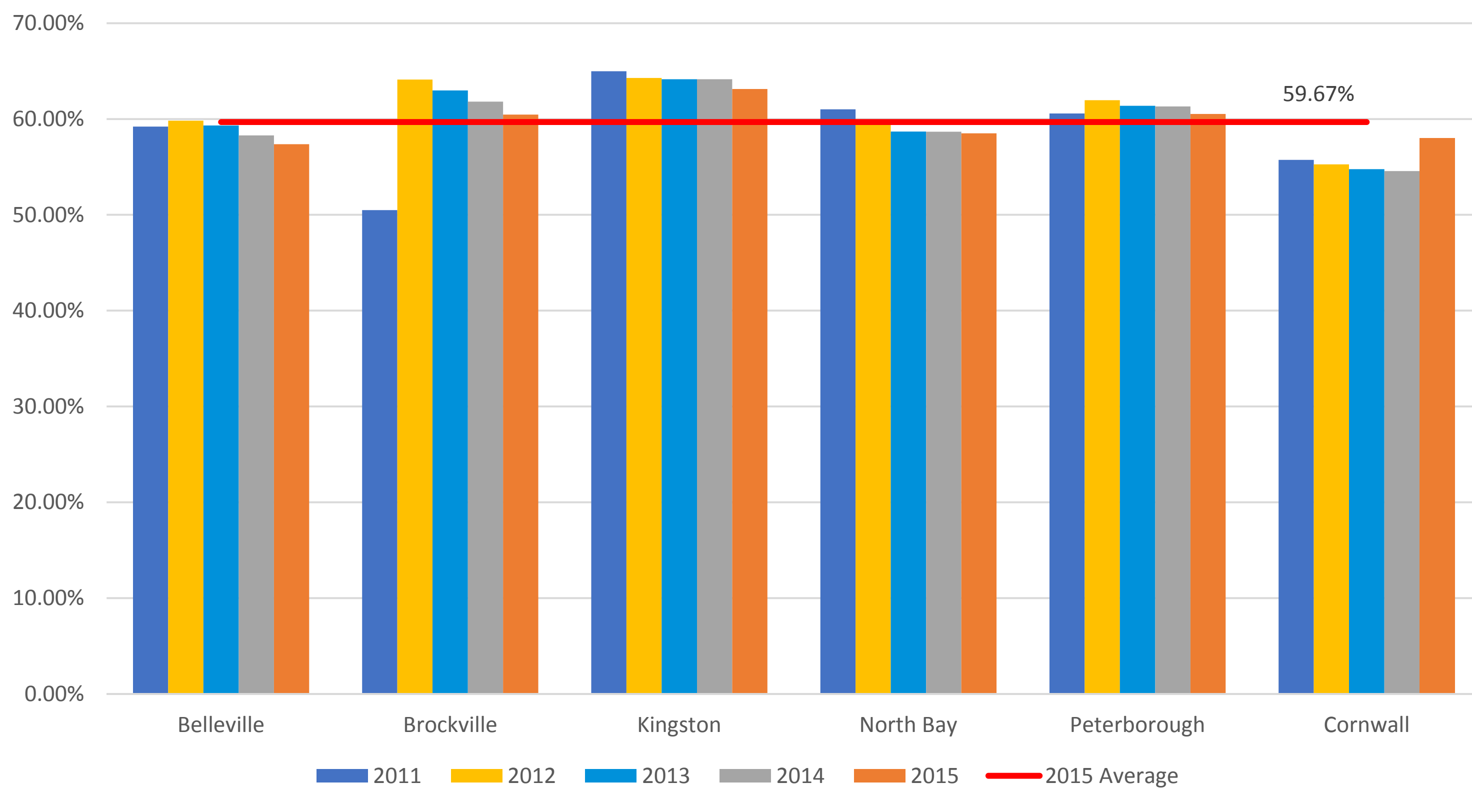


Source – KPMG analysis of annual Financial Information Returns, Schedule 10 and 74
Equation = (SLC 74 3099 1 + SLC 74 3099 02) / (SLC 10 9910 01)

Net Book Value of Tangible Assets as a Percentage of Historical Cost of Tangible Assets

This financial indicator shows the extent to which the City is reinvesting in its capital assets as they reach the end of their useful lives. An indicator of 50% indicates that the City is, on average, investing in capital assets as they reach the end of useful life, with indicators of less than 50% indicating that the City's reinvestment is not keeping pace with the aging of its assets.

A 2015 score of 58% indicates that Cornwall is somewhat keeping pace with the aging of its assets by investing in capital assets. It is however behind its comparators in capital re-investment.

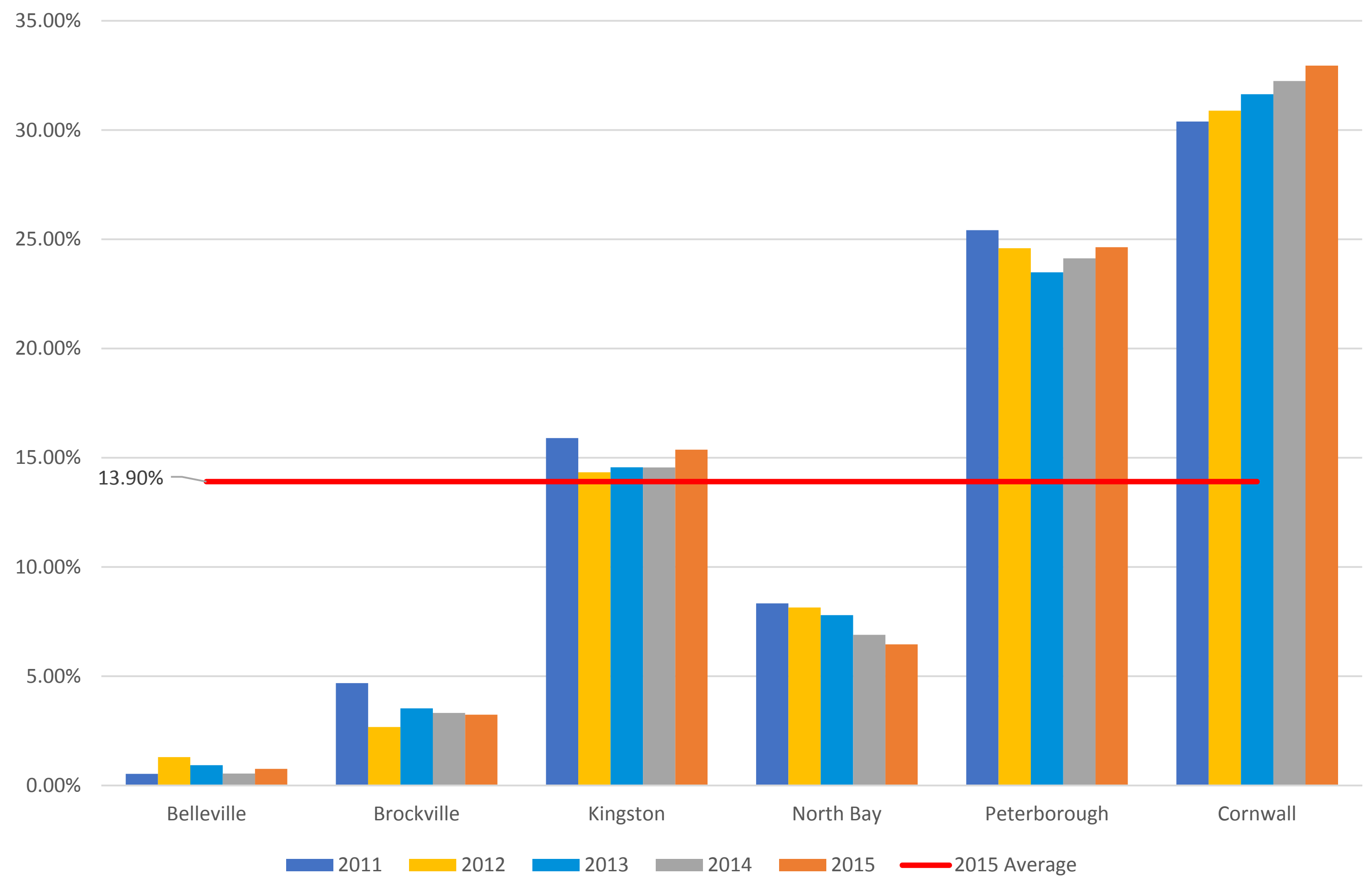


Source – KPMG analysis of annual Financial Information Returns, Schedule 51
Equation = SLC 51 9910 11 / SLC 51 9910 06

Operating Grants as a Percentage of Total

This financial indicator provides an indication as to the municipality's degree of reliance on senior government grants for the purposes of funding operating expenses. The level of operating grants as a percentage of total revenues is directly proportionate with the severity of the impact of a decrease in operating grants.

The significant variance of North Bay and Cornwall from their comparators is a reflection of their designation by the Province of Ontario as Service Managers for social services, long-term care and paramedic services.

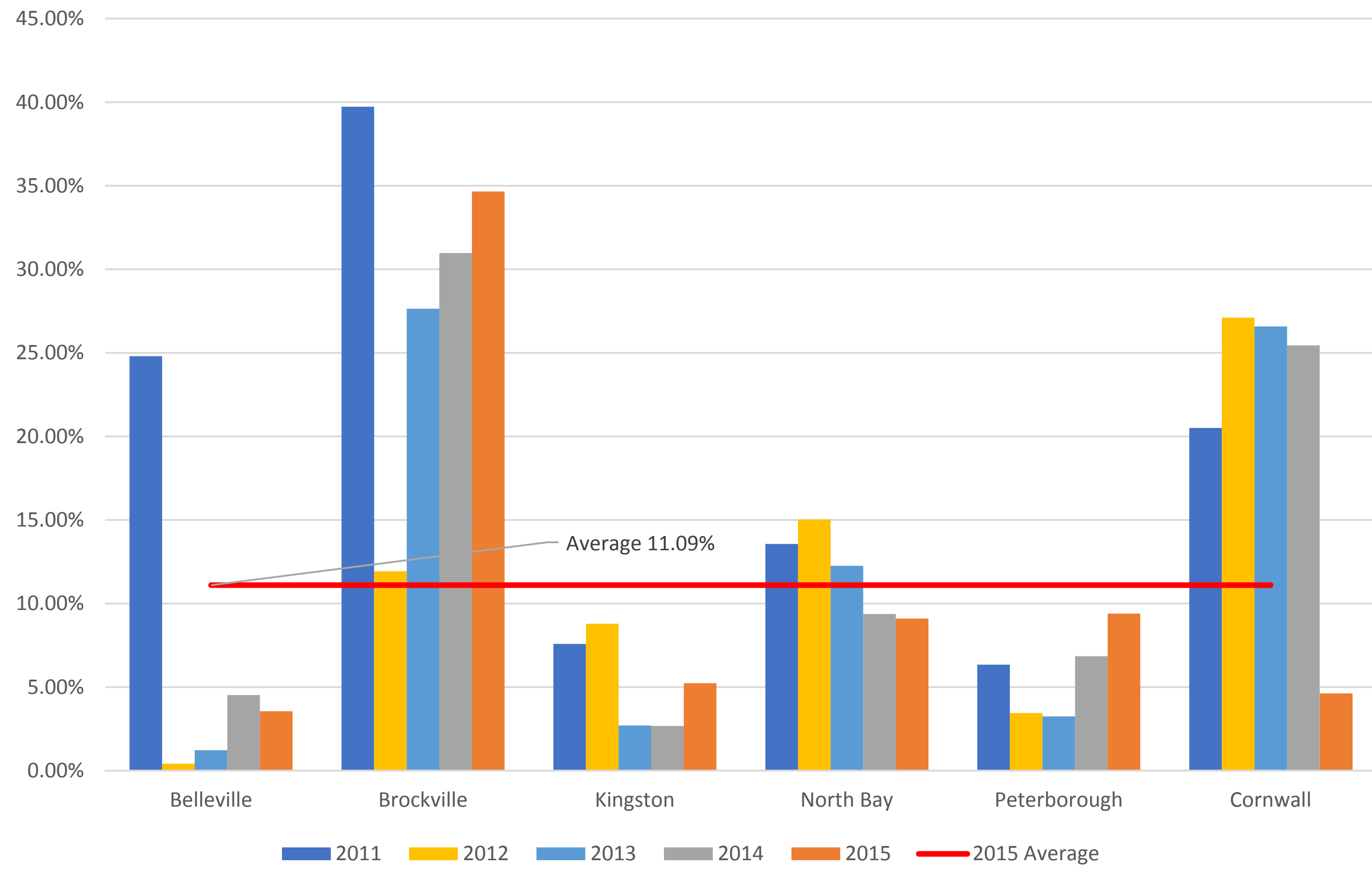


Source – KPMG analysis of annual Financial Information Returns, Schedule 10
Equation = (SLC 10 0699 01 + SLC 10 0810 01 + SLC 10 0820 01 + SLC 10 0830 01) / (SLC 10 9910 01)

Tangible Asset Grants as a Percentage of Total Capital

This financial indicator provides an indication as to the municipality's degree of reliance on senior government grants for the purposes of funding capital expenditures. The level of capital grants as a percentage of total capital expenditures is directly proportionate with the severity of the impact of a decrease in capital grants.

For the past ten years, Cornwall has been highly successful in its capital grant applications. This has allowed the City to construct significant capital projects which is reflected in the accompanying chart data.



Source – KPMG analysis of annual Financial Information Returns, Schedule 10 and 51
Equation = (SLC 10 0815 01 + SLC 10 0825 01 + SLC 10 0831 01) / ((SLC 51A 9910 03 + SLC 51C 9910 02)

Summary of General Themes

General Themes

Sustainability

- In 2015, Cornwall had a Financial Assets to Financial Liabilities ratio of 1.14. It sits above the comparator average, indicating that relative to its peers Cornwall has enough financial resources available to meet most solvency challenges.
- In 2015, Cornwall had $733 in reserves per household which is above the comparator average.
- In 2015, Cornwall's total operating expenses were 3.64% of taxable assessment. Though above the municipal average, this indicator has decreased by nearly 1% since 2011 (4.4%).
- The City trails its comparators in its capital additions as a percentage of amortization expense. While Cornwall scored higher in this indicator than in previous years, the absence of meaningful reinvestment in tangible capital assets, means the City's ability to continue to deliver services at the current levels may be compromised.

Flexibility

- Cornwall had an average household debt of $1,200 in 2015. Low debt per household levels indicates the City has flexibility in the use of debt as a financing tool.
- Residential taxation as a percentage of household income provides an indication of potential affordability concerns by calculating the City's overall rate of taxation. Cornwall's residential taxation as a percentage of household income is below the comparator average and is the lowest of the group.
- Relative to its comparators, the City has a high tax levy requirement as a percentage of total assessment which may limit the City's ability to generate incremental revenues in the future.
- In 2015, Cornwall spent 1.79% of total revenue to fund long-term debt servicing costs. This indicates the City has flexibility in the use of debt as a financing tool.
- The net book value of tangible assets as a percentage of historical cost of tangible assets scores 58% indicating that Cornwall is somewhat keeping pace with the aging of its assets by investing in capital assets. It is however behind its comparators in capital re-investment.

Vulnerability

- The amount of operating grants as a percentage of total revenues for Cornwall is significantly above the comparator average indicating the City's role as a service manager as opposed to a higher state of vulnerability to any changes in grant policy from senior levels of government.
- The amount of capital grants as a percentage of total capital funding for Cornwall has been greater than the comparator average from 2011 to 2014 which is a reflection of the City's success in winning capital grant competitions.

Looking Forward

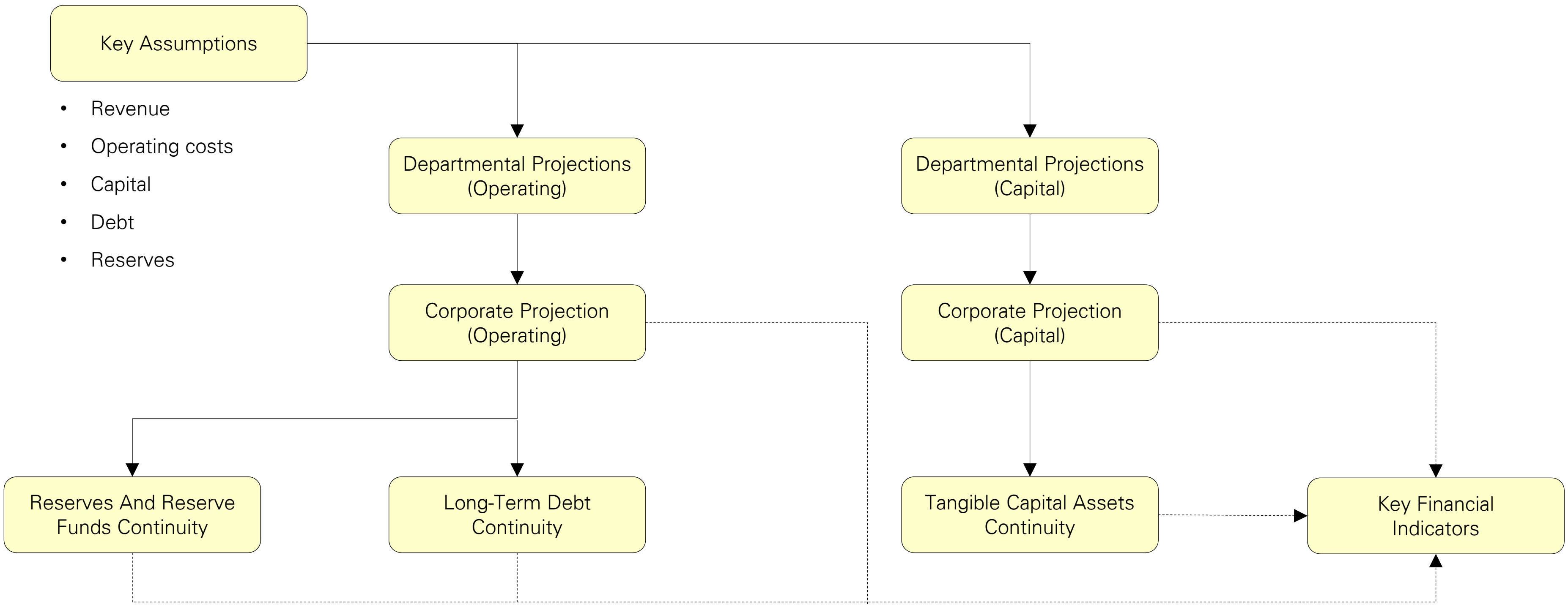
City of Cornwall
Long Term Financial Plan
Final Report

Looking Forward

Long Term Financial Plan Structure

A key component of the long-term financial plan is the development of a financial forecast that considers the impacts of those forces identified in the current state summary that will ultimately influence the City's financial performance over the ten-year planning horizon. The financial forecast is based on the City's 2016 financial statements and reflects a bottom-up approach, whereby forecasts are first developed at the departmental level and consolidated into a corporate forecast the encompasses all of the City's operations.

A graphical depiction of the financial forecast is presented below.



Looking Forward

Key Assumptions

The financial forecast encompasses a number of key assumptions that are used to project the City's anticipated financial performance, including the following:

Operating expenses

Salary and benefit related costs are projected to increase at an average rate of 2.5% per year based upon our financial model. This reflects anticipated settlements under the City's collective bargaining agreements, corresponding increases for management personnel and escalations in benefit costs and other staffing adjustments. Over the five year period preceding the long-term financial plan (2010 to 2015), the City's reported personnel costs increased by an annual average (compounded) of 3.3%.

External transfers are forecasted to increase at a rate of 1.0% per year, based on the increase in reported external transfers during the five year period preceding the long-term financial plan (2010 to 2015).

Materials and goods costs are projected to increase at a rate of 1.0% per year, which represents the assumed general increase in energy costs due to inflation and the impact of saving initiatives undertaken by the City.

Other operating expenses are projected to increase at a rate of 3.0% per year, which represents the assumed general rate of increase in operating costs due to inflation and the impact of regulatory changes, with the City recommended to find efficiencies to offset cost increases[2]. This is consistent with the increase in other operating expenses during the five year period preceding the long-term financial plan (2010 to 2015).

Expenditure Category	Reported Operating Expenses (in millions)			Percentage of Total		
	2009	2015	Annual Increase	2009	2015	Average
Wages and benefits	$ 61.1	$ 74.0	3.3%	43.2%	46.9%	45.1%
Materials & Goods	$ 11.1	$ 12.5	2.1%	7.8%	7.9%	7.9%
External transfers	$ 47.3	$ 39.3	-2.8%	33.5%	24.9%	29.2%
Contracted Services, Rents & Financial Expenses	$ 21.9	$ 31.9	6.7%	15.5%	20.2%	17.9%
Total	**$ 141.4**	**$ 157.8**				

[1] **Excludes amortization expense as these are addressed in the analysis of tangible capital assets.**

[2] **RBC Economics projects increases of 1.6% to 2.1% in government expenditures, while TD Economics projects increases of 1.5% to 2.1%.**

Key Assumptions

Non-taxation revenues

- The City's OMPF allocation is projected to decrease at the rate of 15% per year (2018 & 2019) and remain unchanged at $3.2 million for the remainder of the forecasted period. This level of decrease is consistent with the Province's annual reduction in OMPF funding since 2014 and reflects the guaranteed level of support, whereby the Province establishes total OMPF funding for the City based on percentage of the prior year's OMPF funding, with transitional assistance adjusted to arrive at total OMPF funding.
- The level of grants associated with social assistance and courthouse security programs is expected to increase in 2018, reflecting the final year of uploading for these programs. For subsequent years, these grants are expected to increase at a rate of 1% per year, reflecting the expected increase in operating costs during the remainder of the projection period.
- Water and wastewater user fee revenues are projected within this plan to increase at a rate of 3% per year to 2027, thereafter, based upon the City's financial plan for water and wastewater services.[1]
- User fees and other non-taxation revenues are projected to increase at a rate of 2% per year, which is consistent with the average increase in operating expenses during the six year period preceding the long-term financial plan (see prior page).

Capital expenditures and associated funding

- Projected capital expenditures and associated funding for the years 2018 to 2027 are based on the City's asset management plan completed in 2016. The total amount of capital expenditures during this period is forecasted to be $270 million, which includes the following major projects:

Capital Project	Timing	Cost
Boundary CNR Overpass	2018 – 2021	$7.5 million
Municipal Works Yard Redevelopment	2018 – 2025	$30.5 million
Benson Centre Soccer Fields & Multi Purpose Room	2019	$6.5 million
Fire HQ & Training Centre	2020	$5.0 million
Brookdale Ave. CN Connecting Link	2021 – 2023	$20.2 million
Arts Centre	2025	$10 million

[1] 2015 Water and Wastewater Financial Plan, Watson and Associates

Looking Forward

Key Assumptions

Taxation assumptions

- The City's total taxable assessment is projected to increase at a rate of 1.0% per year, which is consistent with its total assessment growth during the six year period (2009 – 2015) preceding the long-term financial plan. This growth in assessment reflects:
  - An increase in the number of households during the 10 year projection period. The most recent growth forecast estimates an additional 1,353 households will be added to the City throughout a 10 year period;
  - An increase in the amount of commercial and industrial properties. The City's draft development charge background study forecasted a total of 1.93 million square feet of non-residential floor space to be constructed between 2017 and 2027; and
  - Valuation increases on new properties.
- The historical shift of taxable assessment from residential to non-residential properties is expected to continue over the duration of the financial model, with an assessment shift of 0.5% occurring from non-residential properties to residential properties.
- No changes will occur with respect to tax ratios for non-residential properties.

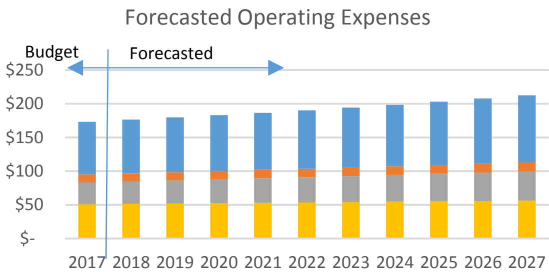
Looking Forward

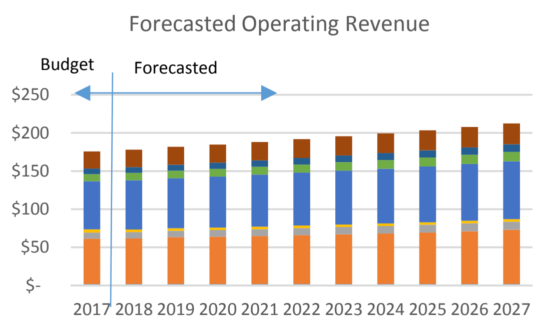
Projected Financial Performance

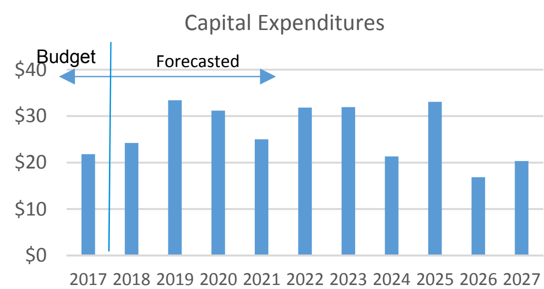
B. Projected financial performance

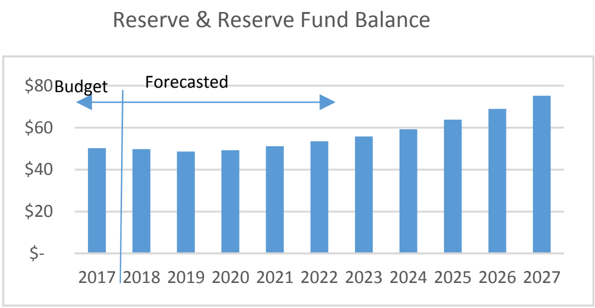
A summary of the City's financial performance and position over the next ten years is provided on the following pages. Specifically, we have included a summary of the following:

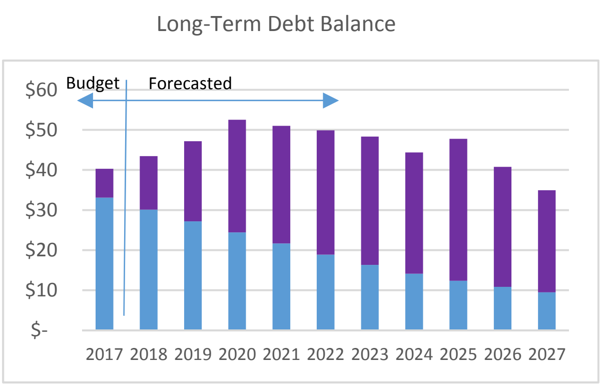
- Total operating expenditures
- Total operating revenues
- Total capital expenditures
- Reserve and reserve fund balances
- Long-term debt balances











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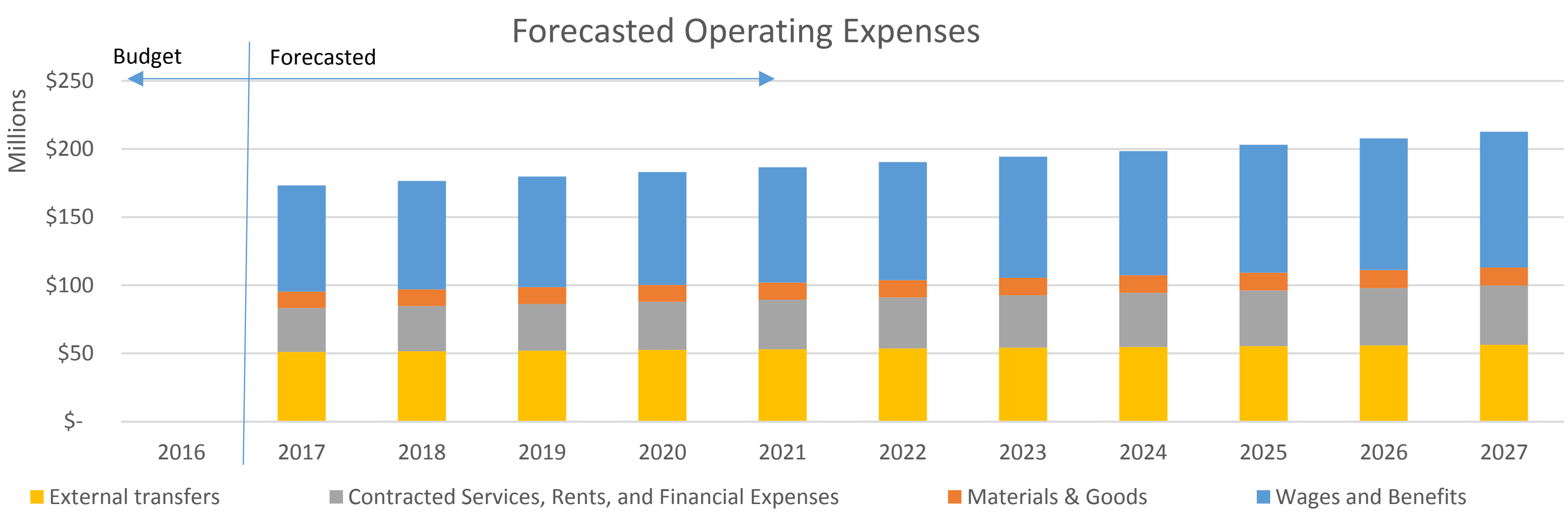
Looking Forward

Operating Expenditures

Total operating expenses are projected to increase from $173 million in 2017 to $212 million in 2027, representing an average increase of 2.3% per year. Major components of operating expenditures are projected to increase as follows:

- Salaries and benefits increasing from $78 million in 2017 to $100 million in 2027;
- Materials and Goods increasing from $12 million in 2017 to $13 million in 2027;
- Contributions to reserves and capital are projected to increase from $14.0 million in 2018 to $20.4 million in 2027; reflecting the anticipated increase in capital financing over the duration of the financial projection period;
- Consistent with the Provincial social services agreement, external transfers are expected to show minimal increases over the 10 year forecasted period.
- All other expenses (contracted services, rents, and financial expenses) are projected to increase from $32 million in 2017 to $43 million in 2027.

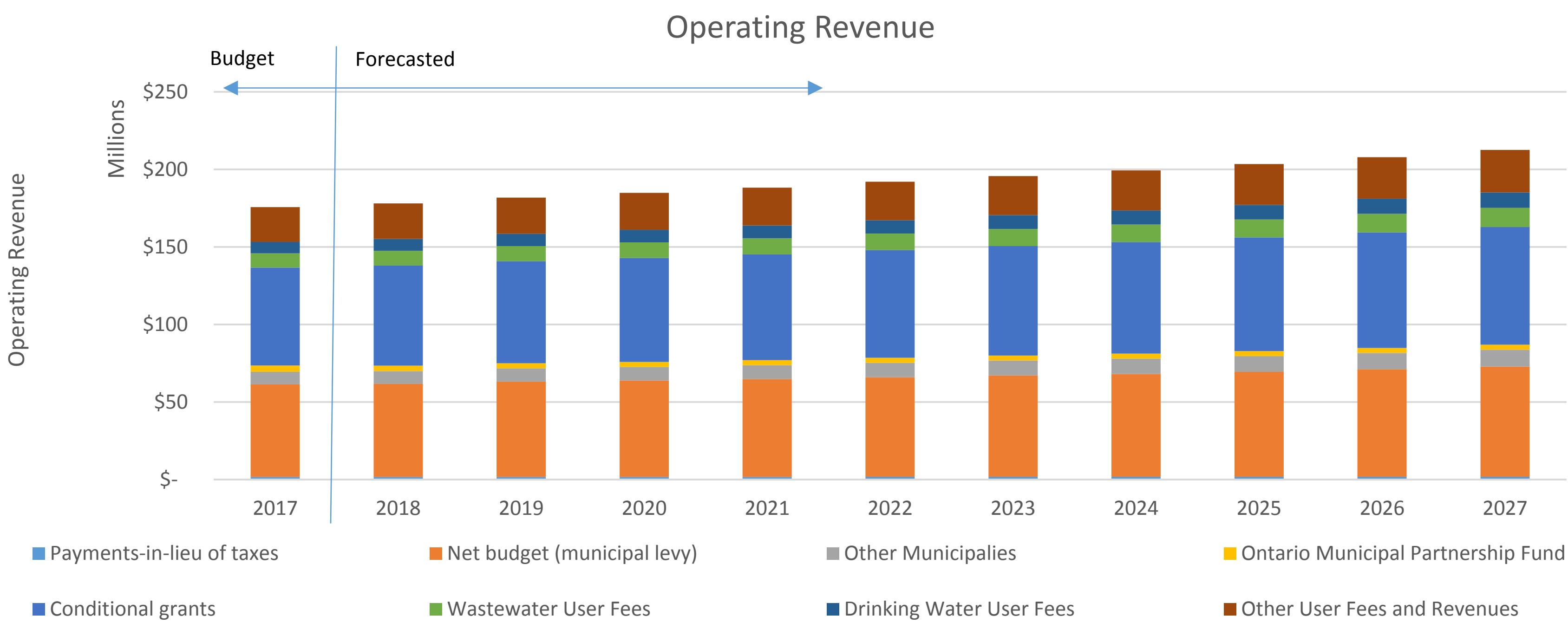


Looking Forward

Operating Revenues

Total operating revenues are projected to increase from $118 million in 2017 to $143 million in 2027, a compound annual growth rate of 2.0%. With respect to projected operating revenues:

- The total municipal levy is forecasted to increase from $67.4 million in 2017 to $93.8 million in 2027, representing an annual increase of 3.37%. Overall, residential taxes per household are projected to increase from approximately $3,200 in 2017 to $4,100 in 2027, an increase of 2.9%. The rate of change in average taxes per household reflects a number of factors, including the projected increase in households offset by assessment shift from non-residential to residential properties.
- Own source revenues (which include the municipal levy, user fees and other revenue sources) are projected to marginally increase from 62% of total operating revenues in 2017 to 65% in 2027, reflecting the assumption that senior government grants will not increase, requiring the City to rely exclusively on own source revenue to fund operating cost increases.



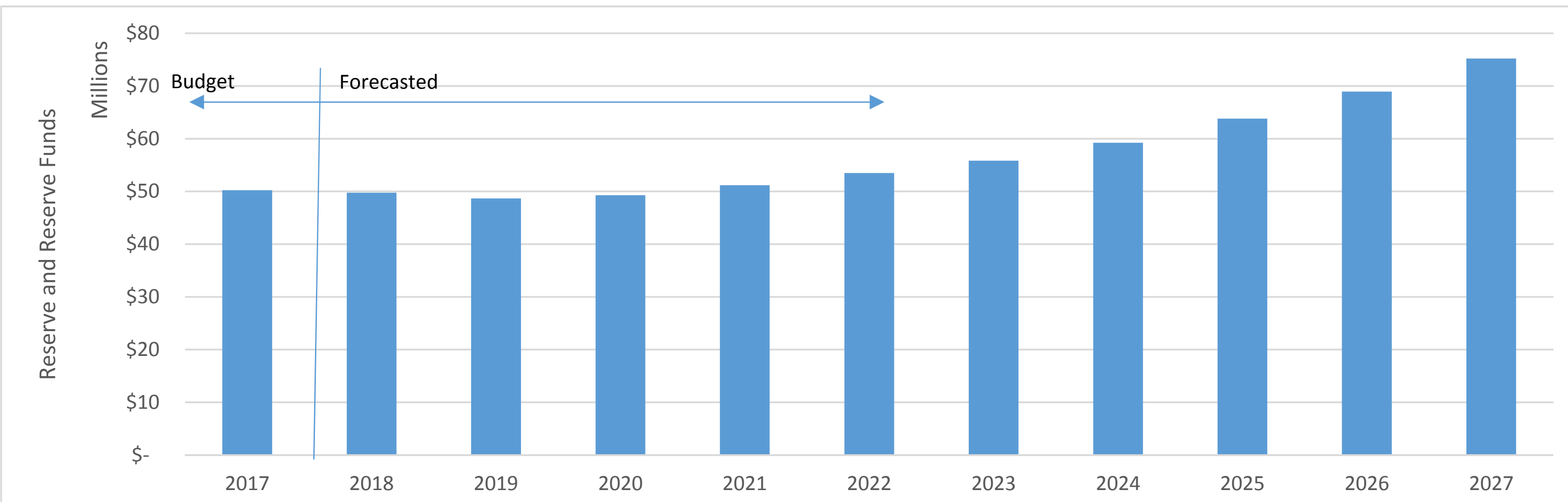
Looking Forward

Reserves & Reserve Funds

Reserve and reserve funds are projected to increase substantially during the projection period, from $50.2 million in 2017 to $75.4 million in 2027. Under this long term financial plan, the City will begin two initiatives to build its internal reserves and reserve funds. First, it will begin to gradually life-cycle cost its major capital assets. Life-cycle costing will contribute approximately $5.6 million to the City's reserves. Second, the City will implement on a gradual basis a capital levy ultimately equal to 2% of net operating expenditures which will contribute approximately $7.8 million over the 10 year period.

Overall, reserve and reserve funds per household are projected to increase significantly, increasing from $2,279 in 2017 to $3,275 in 2027, reflecting the impact of life-cycle costing and the capital levy.

Reserves and Reserve Funds



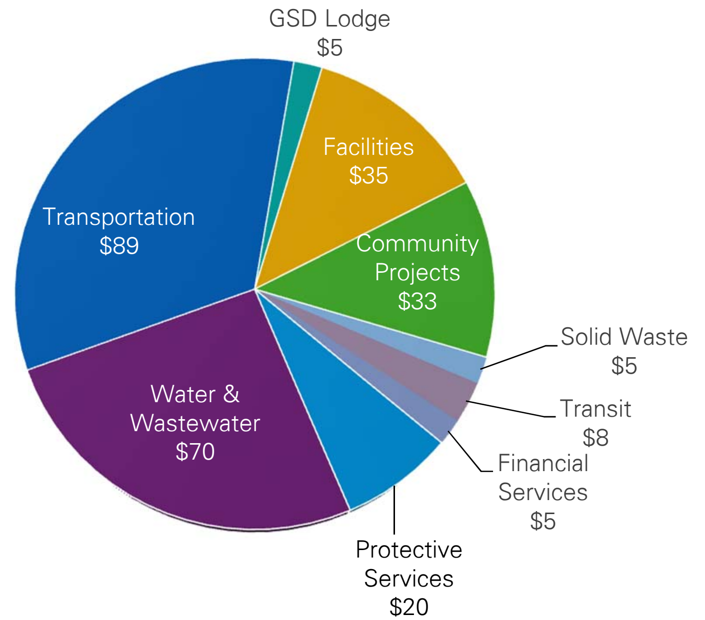
Looking Forward

Capital Expenditures

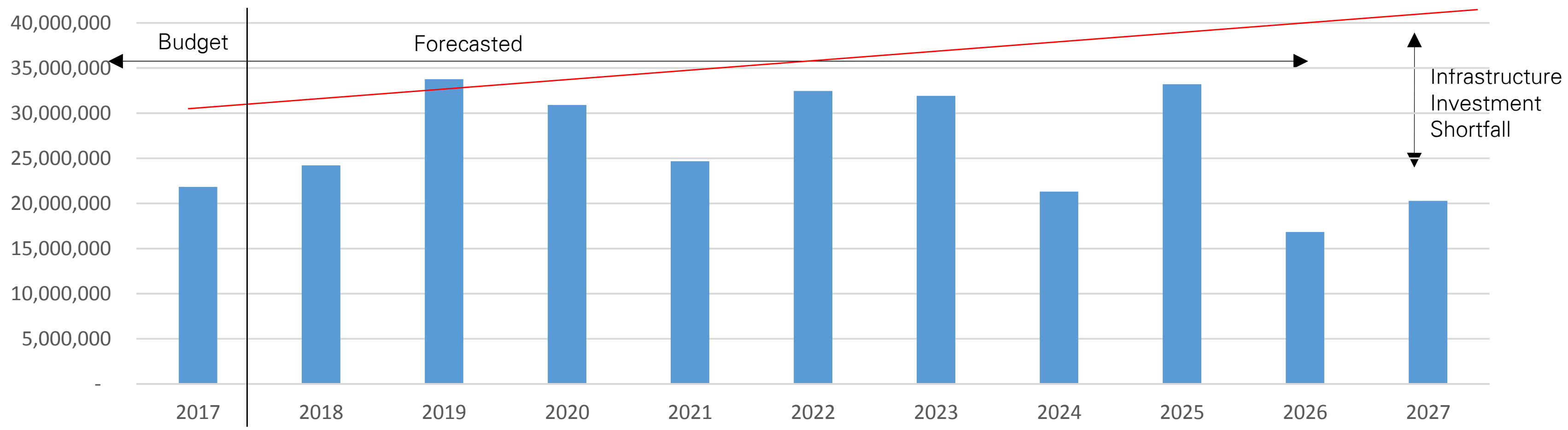
Over the duration of the financial plan, total capital expenditures are projected to amount to $270 million. The majority of capital expenditures relate to transportation (33%), water and wastewater (26%) and facilities (13%).

The City has infrastructure investment requirements of $327 million during the financial planning period, projected capital expenditures of $270 million while substantial remains insufficient to meet the level of investment needed to replace assets operating beyond their useful lives.

Projected Capital Expenditures 2018 – 2027 (millions)



Capital Expenditures



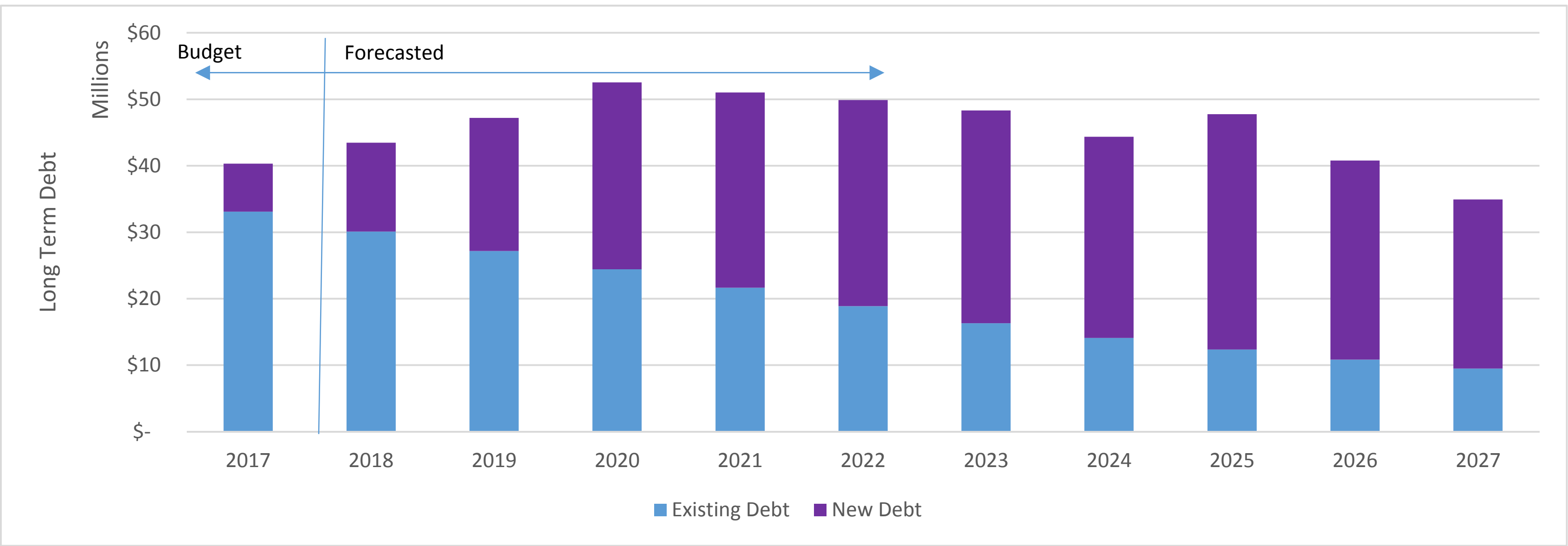
Looking Forward

Projected Long Term Debt

The City has a total of $36.2 million in outstanding debt at the beginning of the 2017 fiscal year, with an additional $61 million in new debt issued over the next ten years. Significant capital expenditures include:

• Municipal Works Yard Project (2018-2025)	$30.5 million
• Arts Centre (2025)	$6.0 million
• New Fire Hall (2020)	$5.0 million
• Cornwall Police Fleet and Dispatch (2018 - 2023)	$2.9 million
• Cornwall Transit Buses (2018 - 2023)	$2.5 million
• Municipal Works Fleet (2018 – 2020)	$2.4 million
• Artificial Turf (Football Field) (2022 – 2023)	$2.1 million

Projected Long Term Debt



Policies & Strategies

City of Cornwall
Long Term Financial Plan
Final Report

Policies & Strategies

Financial Policy Types & Status

In support of its financial planning, the City has identified the need for enhanced financial policies relating to:

- Capital
- Debt management
- Reserves
- Investments

A summary of the financial policies and their current status is provided below:

Financial Policy	Overview	Status
Capital	• Establishes requirement for three year capital forecast • Establishes capital levy and restriction on funds for capital purposes only • Defines approach to prioritizing capital projects • Alignment with asset management plan	
Debt management	• Establishes protocols for debt financing, including term and interest rates • Establishes requirement to transfer debt servicing finance to capital funding upon repayment of debt • One comprehensive policy	
Reserves	• Identifies types of reserves, including operating, capital and stabilization reserves • Establishes minimum and maximum amounts for reserves • Establishes automatic transfers for stabilization reserves • Assessment of target balances and strategies to achieve	
Investments	• Defines eligible investments • Establishes requirements for management reporting to council • Review of Progress Fund investments with One Funds • Policy to advise on strategy to achieve investment objectives	

Legend: Update required Review required Acceptable

Financial Policy Recommendations

#	Financial Category	Financial Policy	Policy Description	Implementation Recommendation
1	Capital	Capital Levy	A capital levy is applied each year for projects that are typically not funded by long-term financing.	Implement a capital levy in 2018 at an initial value of 0.25% of the operating levy increasing it by 25 basis points each year until it reaches 2.0% of the operational levy.
2	Capital	Life-Cycle Costing	Determine the life span of the asset and then determine the annual reserve contribution required to fund the asset's replacement at end of life.	Implement life-cycle costing for the City's asset's in the following order: 1. Fleet & Equipment 2. Facility Capital Maintenance 3. Information Technology 4. Water Distribution & Wastewater Collection
3	Debt Management	Debt Use	Long term debt financing is used for only capital projects that involve significant capital dollars (>$2.5 million) and have a life-cycle greater than 20 years.	Over a ten year period, shift capital financing from debt financing to reserve funding based upon life-cycle costing. Corporate goal should be a financial state where debt financing is a last resort tool for one time projects where insufficient life-cycle costing funds are available.
4	Debt Management	Debt Limit	Annual Debt Repayment is set at maximum of 10% of net own-source revenues (approximately $10 million). This indicates the City's overall indebtedness by calculating the percentage of revenues used to fund long-term debt servicing costs.	This policy should be implemented since the City's ability to issue additional debt may be limited if debt servicing costs on existing debt are excessively high.

Financial Policy Recommendations

#	Financial Category	Financial Policy	Policy Description	Implementation Recommendation
5	Reserves	Operating & Capital Stabilization Reserves	For the operational stabilization reserve any net operational results will be transferred to/from the Operating Stabilization Reserve at year end. For the capital stabilization reserve, budget variances resulting on approved capital projects will be funded from/contribute to the Capital Stabilization Reserve.	Restructure the City's reserves/reserve funds in the following order: 1. Establish operating and capital stabilization reserves. 2. Review current reserves/reserve funds and consolidate where appropriate. 3. Target the Operating Rate Stabilization Reserve Balance at 10% of annual operating expenditures (approximately $10 million) 4. Target Capital Rate Stabilization Reserve balance at 20% of annual Capital expenditures (approximately $5 million)
6	Financial Governance	Budget	Current Capital and Operating Budgets Completed must be completed before December 31st of applicable year	1. Draft Operational & Capital Budget tabled with Council by October 31st of each year 2. Council considers budget recommendations and approves by December 15th of each year.
7	User Fees	Beneficiary Pay	Maximize cost-recovery from consumers of identifiable services	Complete a user fee study
8	User Fees	Activity Based Costing	All direct and indirect costs including overhead are recovered from the consumers of the activity	Complete a user fee study

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Summary & Conclusions

City of Cornwall
Long Term Financial Plan
Final Report

Summary & Conclusions

A. Building Blocks To The Plan

The long term financial plan for the City of Cornwall was constructed upon two key building blocks.

The first building block is the implementation of life-cycle costing to replace the City's assets (e.g. fleet, road, water and sewer infrastructure) at the end of their useful life. By charging itself for the use of the asset and allocating that revenue to a specific reserve, the City will build its reserve and reserve fund position and significantly reduce the long term cost of capital asset replacement. It is forecasted that the City's life-cycle reserves will generate $5.6 million by 2027.

The second building block is the implementation of a capital levy to provide long-term financial support to the City's capital program. The Long Term Financial Plan will gradually implement a capital levy ultimately equal to 2% of net operating expenditures which will contribute approximately $7.8 million over the 10 year period. The implementation of a capital levy intrinsically tied to the operating costs of the City will ensure that the capital fund will be sustainable and protected from inflationary factors over the long term. A capital levy will reduce the City's reliance on external debt financing and reduce the long term cost of capital expenditures.

The implementation of life-cycle costing and a capital levy will require annual levy increases of approximately 1% which is consistent with the levy increases of other Ontario municipalities. The pursuit of other financing strategies, namely debt or asset neglect, will in the long term have a larger more significant cost to the City of Cornwall.

B. Maintaining the long-term financial plan

The long-term financial plan outlined in this report represents a forecast of the City's financial performance and position under a series of assumptions that are documented within the plan. As noted earlier in the document, there is a differentiation between the purpose of the long-term financial plan and the City's annual financial budgets.

The City intends to update the long-term financial plan annually, based on:

- The most recent operating and capital budgets, which will update the financial forecasts of revenues and expenditures by forming the base year for the remainder of the projection period;
- The most recent financial position of the City, including but not limited to reserve and reserve fund balances, investment balances, long-term liabilities and debt outstanding, which will be used to form the base year for the remaining portion of the projection period; and
- Revised key assumptions, which will reflect changes to the financial operating environment since the initial financial forecast considered in the long-term plan.

Summary & Conclusions

The annual updating of the long-term financial plan is anticipated to occur in January, following the finalization of the City's operating and capital budgets.

As a process that supports the City's overall planning, budgeting and evaluating structure, the maintenance of the long-term financial plan, more specifically the updating of the supporting financial forecast, will provide the City with updated indicators that can be used to determine (i) whether the City's financial performance and position is within the ranges established within the financial plan; and (ii) the extent to which trends in the financial indicators demonstrate either current or impending financial challenges that require the City to adjust its financial principles and policies.

Concurrent with the annual updating of the financial forecasts, the maintenance of the long-term financial plan will also involve the calculation of updated indicators for the peer municipalities selected for comparative purposes. Based on FIR information the updated municipal comparators will provide an indication as to the City's financial performance against the selected peer communities.

B. Communicating results

As a means of communicating the City's achievement of the financial principles identified in the long-term financial plan, it is recommended that the annual budget process include reporting on the City's financial indicators, including (i) trends in the financial indicators; (ii) outliers from the established ranges; and (iii) a comparison of the City's indicators to the selected peer communities, with City staff providing Council with an indication as to how the annual budget addresses issues or opportunities identified by the indicators.

Appendix A
Financial Principals & Policies

City of Cornwall
Long Term Financial Plan
Final Report

Financial Policies & Principles

#	Financial Principle	PSAB Classification	Indicator & Description
1	Financial Solvency	Sustainability	Ratio of assets to liabilities - low levels of financial assets to financial liabilities are indicative of limited financial resources available to meet cost increases or revenue losses.
2	Reserve Position	Sustainability	Total reserves & reserve funds per household - low levels of reserve are indicative of limited capacity to deal with cost increases or revenue losses, requiring the City to revert to taxation or user fee increases or the issuance of debt.
3	Operating Expenses Control	Sustainability	Total operating expenses as a percentage of taxable assessment - provides an assessment of the City's solvency by determining the extent increases in operating expenses correspond with increases in taxable assessment. If increases correspond, the City can fund any increases in operating costs without raising taxation rates.
4	Taxation Growth	Flexibility	Residential taxation as a percentage of household income – provides an indication of potential affordability concerns by calculating the percentage of total household income used to pay municipal property taxes.
5	Taxation Growth	Flexibility	Total taxation as a percentage of total assessment - provides an indication of potential affordability concerns by calculating the City's overall rate of taxation. Relatively high tax rate percentages may limit the City's ability to general incremental revenues in the future.

Financial Policies & Principles

#	Financial Principle	PSAB Classification	Indicator & Description
6	User fees based on Cost Recovery Beneficiary Pay principle	Flexibility	Completed User Fee Study – maximize use of cost-recovery from consumers of identifiable services.
7	User Fees employ Full Cost Recovery Based on Activity Costing	Flexibility	Completed User Fee Study - All direct and indirect costs including overhead are recovered from the consumers of the activity.
8	Debt Management	Flexibility	Debt per household – provides an assessment of the City's ability to incur additional debt.
9	Debt Management	Sustainability	Debt Charges to gross current expenditures not to exceed 15%. This sets maximum annual debt charges in relation to total current operating expenditures.
10	Debt Management	Flexibility	Maximum Debt Load of 25% of annual debt repayments from general taxpayers. Calculated annual debt interest and principle payments funded from general levy in relation to total debt charges.
11	Debt Management	Sustainability	Annual Debt Repayment Set At Maximum of 10% of net own source revenues. This financial indicator provides an indication as to the City's overall indebtedness by calculating the percentage of revenues used to fund long-term debt servicing costs. The City's ability to issue additional debt may be limited if debt servicing costs on existing debt are excessively high.
12	Debt Management	Vulnerability	Debt Financing is a last resort tool for one time projects where insufficient life-cycle costing funds are available.

Financial Policies & Principles

#	Financial Principle	PSAB Classification	Indicator
13	Establishment of a Operating Stabilization Reserve	Flexibility	At year end, any net operational results will be transferred to/from the Operating Stabilization Reserve
14	Establishment of a Capital Stabilization Reserve	Flexibility	Budget variances resulting on approved capital projects will be funded from the Capital Stabilization Reserve
15	Establishment of a Capital Levy adjusted annually by construction index	Vulnerability	The capital levy is applied to projects that are typically not funded by long-term financing. The annual construction price index as determined by Stats Canada is used to determine the annual inflationary impacts on ongoing capital maintenance projects
16	Targeted Operating Rate Stabilization Reserve Balance	Sustainability	Targeted Operating Rate Stabilization Reserve Balance 10% of annual operating expenditures (excluding social and housing services) to provide the City with protection from unforeseen operating budget variances
17	Targeted Capital Rate Stabilization Reserve Balance	Sustainability	Targeted Capital Rate Stabilization Reserve Balance 10% of annual Capital expenditures to provide the City with protection from unforeseen budget variances on capital projects/purchases
18	Current Capital and Operating Budgets Completed must be completed before December 31st of applicable year	Flexibility	Final Council approval of the upcoming annual budget must be completed prior to the end of the preceding year. This allows the City the greatest opportunity to deliver optimum results on both capital and operating projects

Financial Policies & Principles

#	Financial Principle	PSAB Classification	Indicator
19	Life cycle Asset Management	Flexibility	NBV of tangible capital assets as a percentage of historical cost - provides an indication as to the extent to which the City is reinvesting in its capital assets as they reach the end of their useful lives. An indicator of 50% indicates that the City is, on average, investing in capital assets as they reach the end of useful life, with indicators of less than 50% indicating that the City's reinvestment is not keeping pace with the aging of its assets.
20	Operational Financial Independence	Vulnerability	Operating grants as a percentage of total revenues - provides an indication as to the City's degree of reliance on senior government grants for the purposes of funding operating expenses. The level of operating grants as a percentage of total revenues is directly proportionate with the severity of the impact of a decrease in operating grants.
21	Capital Financial Independence	Vulnerability	Capital grants as a percentage of total capital expenditures - provides an indication as to the City's degree of reliance on senior government grants for the purposes of funding capital expenditures. The level of capital grants as a percentage of total capital expenditures is directly proportionate with the severity of the impact of a decrease in capital grants.

Financial Policies & Principles

#	Financial Principle	PSAB Classification	Indicator
22	Life cycle Asset Management	Sustainability	Completed asset management plan using life-cycle costing tied to the long term financial plan
23	Life cycle Asset Management	Sustainability	Capital additions as a percentage of amortization expense – provides an assessment of the City's efforts to replace its end of life capital assets. In the absence of meaningful reinvestment in tangible capital assets, the City's ability to continue to deliver services at the current levels may be compromised.

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