DRAFT REPORT

PREPARED BY HEMSON FOR THE TOWN OF INNISFIL

LONG-RANGE FINANCIAL PLAN

May 22, 2026

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Executive Summary

A. The Town is Committed to Long-Term Financial Sustainability

Hemson has been engaged to assist the Town of Innisfil in developing a Long-Range Financial Plan (LRFP) that consolidates work completed to date and supports the Town's continued efforts toward long-term fiscal sustainability. This includes, but is not limited to, capital and operating budgets and forecasts, development charges studies and the asset management plan. This LRFP Report is one of two key deliverables as part of the LRFP and accompanies the Excel-based LRFP Model.

This report provides an assessment of the financial health of the Town in the context of its demographic and economic environment, municipal financial benchmarks, and current and forecast spending and revenues. The LRFP model was developed utilizing a 20-year forecast horizon, while the results of a 10-year (2027-2036) forecast are presented and discussed with a base year of 2026.

B. Innisfil is in Good Financial Position

Innisfil is in a healthy financial position. However, like most municipalities in Ontario and across the country, the Town has been facing increasing financial pressures associated with rising costs, aging infrastructure, and limited tools available to fund both growth and non-growth-related projects.

Despite these challenges and pressures, the Town has historically been fiscally efficient, by controlling tax increases, and maintaining low debt levels. The Town maintains a strong Debt Management Policy and the available room within both the Provincially mandated and municipally imposed debt limits will allow the Town to take on strategic investments while avoiding sudden tax rate spikes. The Town also manages its expenditures through maintenance of a number of reserves and utilizes OLG revenues for capital needs. The Town has been proactive to meet asset management needs, with funds dedicated for this purpose through continued use of the 1.0% capital levy.

C. Higher Tax Increases are Projected, but Mitigating Actions Possible

The LRFP Model provides a financial forecast for Innisfil based on the current operating budget, capital budget and 10-year forecast, development forecasts based on the most recent DC Background Study, various master servicing plans (2022 Transportation Master Plan, 2023 Land and Lakes/Parks and Recreation Master Plan, 2024 Facilities Master Plan, 2023 DC Study) relevant documents as well as existing financial policies and practices. It is noted that the LRFP Model reports on all values in constant 2026 dollars. A summary of the findings is below:

- The Town will continue to grow, with an expected population of just under 100,000 people by 2051. This growth is driven by development expected in strategic areas across the Town including the Orbit secondary plan.

- Continued growth will require increases to operating costs and additional infrastructure to maintain acceptable levels of service. At the same time, aging infrastructure requires regular maintenance and repair adding additional costs. Growth also provides opportunities for new tax revenues, but assessment growth alone will not offset the additional costs.

- The outputs of the model reflect the scale of the 2027 to 2036 LRFP capital forecast totaling about $1.3 billion, which represents a capital spending rate about 4 times the historical annual capital expenditures over the last 6 years. The total 20-year capital needs are projected at about $2.3 billion. In order to implement the capital forecast while managing tax rate spikes and maintaining adequate reserve balances, debt financing has been introduced into the analysis.

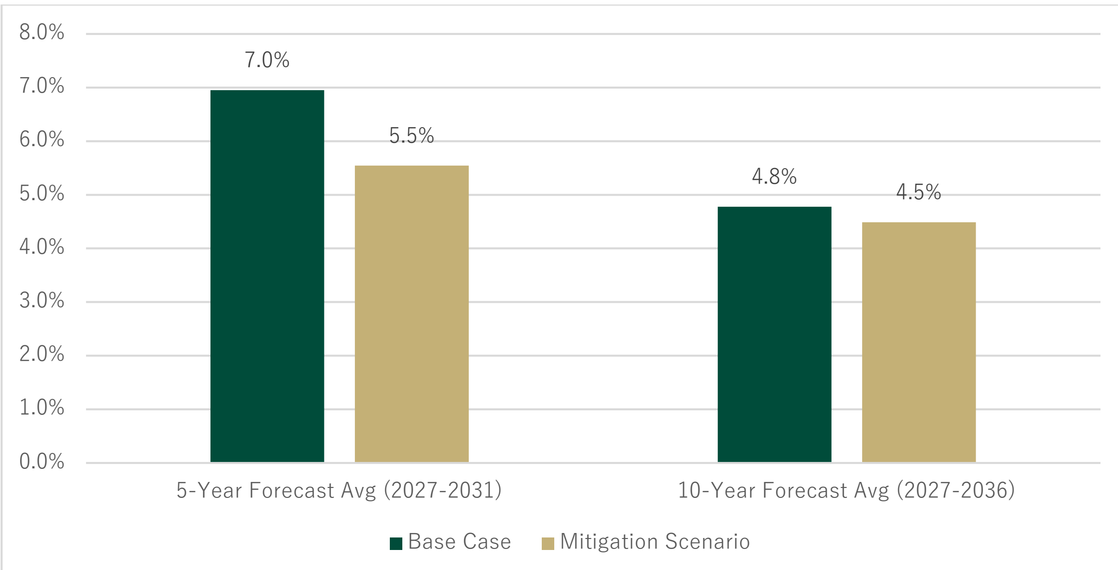
- A base case scenario was developed, that assumes the capital needs and timing based on the Town's various master planning and engineering documents and studies. An alternative scenario was developed which considers deferring capital needs to mitigate tax pressures, referred to as the mitigation scenario.

- As shown in Figure 1, over the first five years of the forecast period, real annual bill increases are projected to average about 7.0% per year in the base case (green bars). Over the longer term to 2036, the real increases are slightly lower on average at about 4.8% annually. The typical bill increases are driven by rising service demands and growing capital needs, including investments in infrastructure, state of good repair, and debt financing. While assessment growth helps offset some increases, uncertainty in growth levels may still put upward pressure on overall tax bills if development activity is slower than projected.

- Figure 1, also shows the mitigation scenario (gold bars) that assumes about $158.7 million in capital is deferred to beyond 2031 while $152.8 million in capital is deferred to beyond 2036. Over the first five years of the forecast period, real annual bill increases are projected to average about 5.5% per year. Over the longer term to 2036, the real increases are slightly lower on average at about 4.5% annually. The increases are mitigated through lower operating and debt pressures as capital needs are spread over a longer period. However, it is important to recognize that capital needs can not be deferred indefinitely, as this would affect levels of service, so the total needs of $2.3 billion over 20-years are maintained.

- The LRFP Model can be used by staff on an ongoing basis to model the impact of any significant changes to the Town's budgets.

Figure 1** – **Comparison of Typical Bill Impact (Base Case vs Mitigation Scenario)



Note: Typical bill based on average household with assessment of $446,000. Chart represents total blended typical bill increase. Assumes long-term average real tax rate increase of: County 1.5%, Education 0.5%.

D. POLICY RECOMMENDATIONS TO ALIGN WITH FISCAL OUTLOOK

Policy recommendations are based on the findings of the LRFP Model, as well as a review of the Town's existing policies and prevailing practices. Key policy recommendations are summarized as follows:

- **Consider the Strategic Use of Debt Financing for Major Capital Investments**: The Town has a strong Debt Management Policy and comparably low debt levels to other municipalities. The Town should consider using debt to finance strategic growth-related projects with long-benefitting horizons. This would maintain intergenerational equity by matching the long-term benefits of these projects with long-term cost recovery. The Town may also consider debt financing critical state-of-good repair needs, as appropriate

- **Establish a Comprehensive Reserve and Reserve Fund Policy:** Innisfil maintains a number of capital and operating reserves to help smooth out expenses, surpluses, and deficits related to various accounts. While maintenance of these reserve and reserve funds is guided by individual policies and practices, the Town does not currently have an overarching reserve and reserve fund policy in place. It is recommended that the Town consolidate these practices into a Reserve and Reserve Fund Policy establishing overall guidelines related to the maintenance of reserves, including considerations for ongoing financial stability and appropriate reserve levels by reserve type. A set of fiscal measures are outlined in this report that should be tracked collectively. The LRFP Model will serve as a valuable tool to monitor overall reserve levels on an ongoing basis.

- **Maintain the Capital Levy to Undertake Non-Growth Capital Needs:** The Town currently increases its tax funded capital contributions, based on 1.0% of the blended tax rate increase for the average home. Proceeds from the capital levy are used to fund non-growth shares and state-of-good repair projects. Given the magnitude of the capital program, the LRFP model assumes that the capital levy would be maintained at a minimum of 1% for the long-term.

- **Continue to explore opportunities for alternative sources of funding :** This includes exploring opportunities to implement a stormwater rate or monitoring the recently announced opportunities under the Build Communities Strong Fund. The Town will need to continue to explore additional grants wherever possible.

E. LRFP IS A COMPREHENSIVE LOOK AT THE FORECAST FINANCIAL POSITION

The LRFP process has resulted in a comprehensive understanding of the Town's current and forecast financial position, how current financial policies and practices are performing, and how fiscal policies can be used to support the Town's long-term financial sustainability. The LRFP Model will be an important tool to support continued efforts toward long-term fiscal sustainability.

While the intention of the model is not to replace the Town's annual budget processes, it can inform long-term financial planning decisions. A comprehensive update of the model generally should be undertaken approximately every five years or with each term of Council. The model allows for sensitivity testing, without the need for a comprehensive update, on an as-needed basis.

1. INTRODUCTION

The Town of Innisfil engaged Hemson to assist in the development of a Long-Range Financial Plan (LRFP). This report is one of the key deliverables and provides an assessment of the financial health of the Town in the context of its demographic and economic environment, municipal financial benchmarks, and current spending and revenues. The results of the 10-year financial forecast are presented and discussed, incorporating the Town's 10-year capital budget and forecast, master servicing plans, asset management plan, DC study and other relevant documents. Finally, guidance is provided related to the Town's financial policies and practices.

A. THE LRFP IS USED TO ASSESS THE LONG-TERM FISCAL SUSTAINABILITY OF THE TOWN

The Town of Innisfil has experienced rapid population and employment growth over the last decade. The Towns's 2021 census population is estimated at just over 43,000 and based on projected trends is anticipated to reach just under 100,000 people by 2051.

Innisfil is a lower-tier municipality within Simcoe County. Within its two-tier government structure, the Town of Innisfil is responsible for the delivering certain local services, which are planned through a detailed annual budgeting process. These include fire services, libraries, parks and recreation, engineering, local transportation, stormwater management services, infrastructure repair and replacement, maintenance of facilities, planning and development services, by-law and compliance and building standards.

The Town has remained fiscally sustainable through increasing financial pressures and continues to evolve as both development-related and infrastructure renewal needs grow. This comprehensive review of Innisfil's current and forecasted financial position will support continued financial health and sustainability and assesses the following:

- Long-term financial health and sustainability;
- Financial impact of growth and development;
- Evaluation of capital infrastructure needs;
- Impact of service level changes;
- Funding requirements for infrastructure replacement needs;
- Demonstration of the need for financial policy changes; and
- Guide Council on best fiscal practices and strategic decision-making.

The objective of the LRFP is the development of a long-term plan that is made up of two key deliverables:

1. Long-Range Financial Plan Report

- Focus on financial viability, management, flexibility and sustainability;
- Identification of measurable goals, targets and objectives;
- Overview of financial history and current status;
- Overview of key model findings (10-year forecast);
- Identifications of risk, challenges and opportunities; and
- Key directions and policy recommendations to guide the Town toward financial sustainability.

2. Long-Range Financial Planning Model

A tool for staff to:

- Assess the current financial position of the Town;
- Forecast the future financial position of the Town over the next 10 to 20 years;
- Identify overall capital and operating needs;
- Assist in the annual budgeting process;
- Undertake sensitivity testing to understand the impact of major new initiatives, changes or scenarios; and
- Provide information and data for ongoing updates to the LRFP.

The results and findings presented in this report are a point in time analysis that builds upon the past and future long-term planning of the various Town departments. The model is designed for ongoing use, to undertake sensitivity analysis and adjust for actual costs. It is recommended that the model and report may be updated every three to five years by Town staff to account for actual outcomes and Innisfil's changing economic and fiscal environment.

B. THE LRFP SUPPORTS FINANCIAL SUSTAINABILITY OBJECTIVES

The LRFP will be used by staff and senior management to examine, in financial terms, the strategic priorities of Council to assist them in making informed decisions. The LRFP tools will allow the Town to identify fiscal pressure points and assist in developing, and testing, strategies to achieve Council's priorities and objectives. In this regard, consideration for Innisfil's complete fiscal position is included as part of the LRFP so that the financial sustainability of the Town can be examined over a longer timeframe than the annual budget cycle. All tax supported capital and operating cost impacts are analyzed.

The LRFP provides tools for the Town to measure, monitor and achieve long-term financial targets and objectives. In this way, the Town can make financial decisions in the context of their effects on long-term asset management, the adequacy of reserve funds, debt levels and debt capacity, and property tax rates. A key component of the LRFP is a comprehensive LRFP Model, developed in Excel, and designed for use by Town staff in subsequent years.

The timing of the LRFP is prudent as it builds upon important work completed by the Town in recent years and work being undertaken in advance of significant anticipated growth and development.

C. THE LRFP IS GUIDED BY A SET OF KEY TOWN DOCUMENTS

The basis of the LRFP is a detailed review of municipal financial documents, including but not limited to the following:

- 2025/2026 approved operating budget;
- 2025-2034 capital plan;
- 2023 Development Charges Background Study;
- Various Master Plans like the Facilities Master Plan, Fire Services Master Plan, Innisfil Beach Park Master Plan, Land and Lakes Master Plan, Library Master Plan, Transportation Master Plan, and others;
- 2025 Asset Management Plan and related data;
- Financial information Returns; and
- Other existing financial policies and practices (including debt, funding of asset lifecycle costs, etc.).

D. LRFP REPORT STRUCTURED IN 5 KEY SECTIONS

The LRFP Report is divided into the following sections:

- **Section 2** presents the demographic and economic context, including forecast of growth to 2051; current fiscal position, taking into account a range of key financial indicators; and a preliminary assessment of strengths, weaknesses, opportunities and threats;
- **Section 3** provides an overview of the LRFP Model and main assumptions;
- **Section 4** presents the various outputs and key findings of the model;
- **Section 5** includes a review of key policies and recommendations; and
- **Section 6** concludes with a high-level overview of the key takeaways and next steps.

2. THE TOWN'S OVERALL FINANCIAL POSITION

This section provides context regarding the forecast of residential and non-residential growth, the Town's current fiscal position, taking into account a range of key financial indicators, and a preliminary assessment of strengths, weaknesses, opportunities, and threats.

A. RESIDENTIAL AND NON-RESIDENTIAL GROWTH FORECAST

The Town of Innisfil has experienced high levels of population growth and development in recent years, with Census population growth of approximately 32% between 2011 and 2021. The Town expects to see significant growth in population over the period to 2051, driven by growth in the Town's development areas including the Orbit community which is assumed to come online by 2030.

As shown in Figure 2, Innisfil's population is expected to grow to just under 100,000 people by 2051, from an estimated 50,900 in 2026. This represents average population growth of just under 3.0% per year. Figure 3 shows employment associated with non-residential building space is anticipated to reach about 24,300, up from the current estimated 9,900. This represents average employment growth of about 3.7% per year. Finally, average population and employment combined growth is about 3.0% per year to 2051.

***Figure 2** – Forecast of Census Population to 2046*

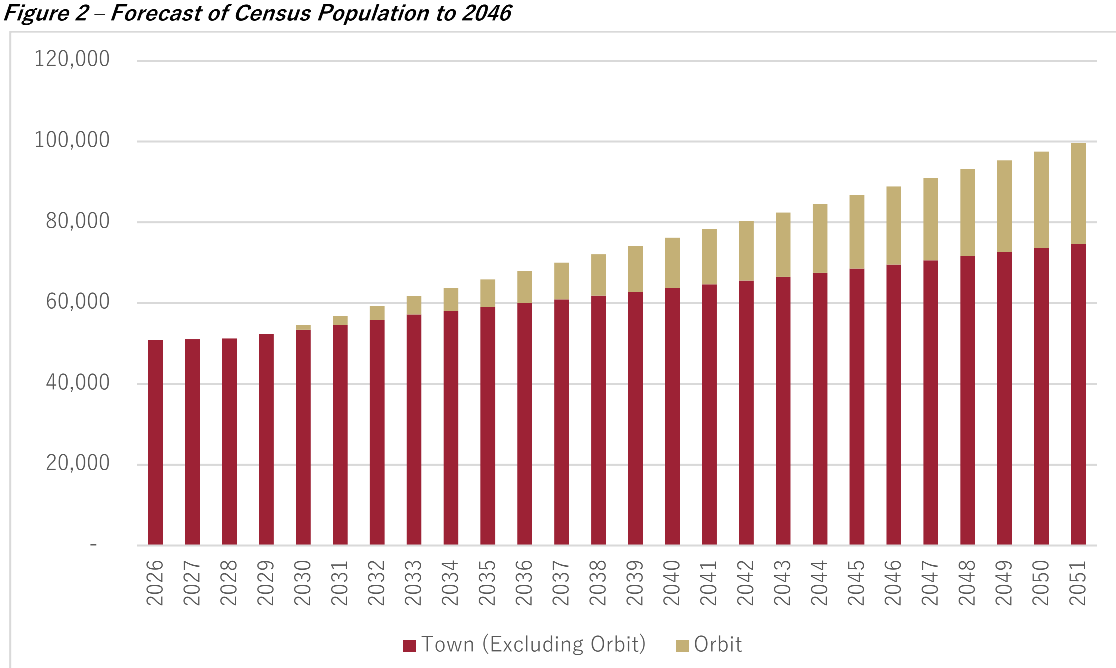
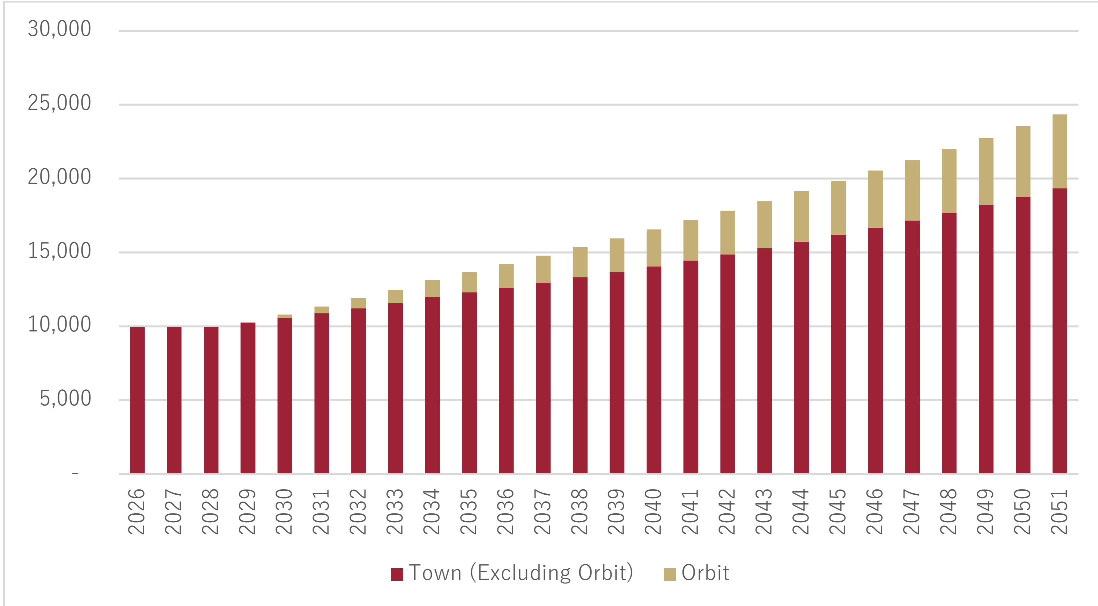


Figure 3 - Forecast of Employment to 2046



B. CURRENT FISCAL POSITION

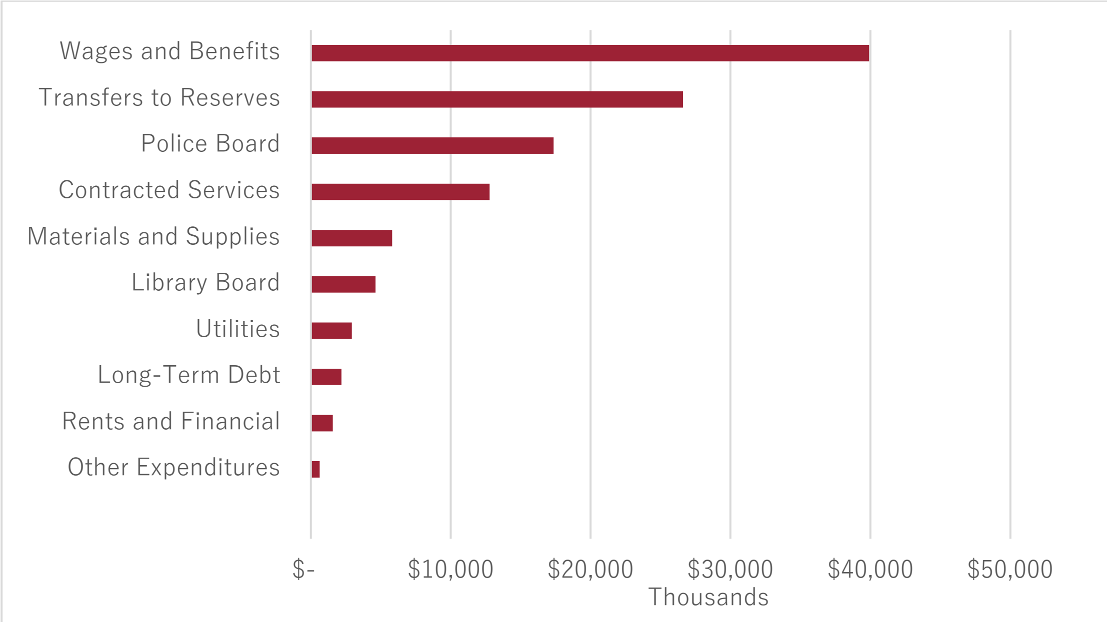
This section provides a general overview of the Town of Innisfil's current fiscal position, including revenues and expenditures along with key financial indicators of the LRFP model. While the Town is in a strong financial position, as it continues to mature and the nature and type of development evolves, it is an appropriate time to undertake a comprehensive financial impact assessment, including an examination of current policies and practices.

i. 2026 Budget: Revenues & Expenditures

Figure 4 provides the Town's breakdown of 2026 total expenditures by expenditure type for tax-supported assets. As is common in most municipalities, the largest component of the expenditures is attributed to salaries, wages and benefits and represent 35 per cent of the Town's total expenditures of $114.5 million in 2026.

Like most municipalities, the Town derives the largest share of its revenue through property taxation, which totals approximately $76.4 million in 2026. The remaining revenues, as shown in Figure 5, total $38.1 million. This includes $7.5 million in Transfer from Reserves, representing 20 per cent of the total Ontario Lottery and Gaming (OLG) revenues and external recoveries each total $7.1 million and both represent 19% of the total. Permits and other development fees totals $3.9 million or 10 per cent. User fees, licenses and fine revenue total $3.3 million, or 9 per cent of total non-tax revenues.

Figure 4 - 2026 Budget Expenditures



Note: The "Other Expenditures" category includes Internal Recoveries/Transfers and Conservation Authority, Library and Grants.

Figure 5 - 2026 Budget Non-Tax Revenues

Note: To illustrate the expenditure and revenue in the model base year, supplementary taxes and PILs are included here.

ii. Key Financial Indicators

A key indicator of the Town's current financial position is through a comparison to similar neighbouring municipalities. The following table provides an overview and accompanying performance metrics related to debt management and asset management funding. Detailed reporting on these benchmarks is provided in Appendix A.

For the comparative measure related to asset management contributions, best efforts have been made to ensure comparability across municipalities, however some differences may remain in how municipal budgets account for contributions to reserves.

Table 1 – Benchmarking Analysis Summary

Comparative Measure	Innisfil Performance
Residential and Non-Residential Shares of Weighted Assessment	Innisfil's non-residential share of weighted assessment, at 10%, is lower than the average of 20% across select Simcoe County and surrounding municipalities. As a result, Innisfil is more reliant on the residential tax base which may make it more difficult to absorb significant tax levy increases.
Debt Management	The Town of Innisfil holds a relatively small amount of debt compared to other municipalities, with annual debt payments totalling just under 3% of own source revenue. At present, the Town is well within the Provincial Annual Repayment Limit of 25% of own source revenue and its internal debt limit of 20%. When compared against other communities, the current debt level is amongst the lowest with only Springwater and Essa being lower in terms of the debt as a percentage of own source revenue. Innisfil's low debt levels allow for the strategic use of debt to fund critical infrastructure in a fiscally sustainable approach. The Town's debt policy limit of 20% of own source revenue is comparable to Barrie, but is higher than the typical policy limits set by other municipalities ranging from about 10% to 15%.

Comparative Measure	Innisfil Performance
Tax-Supported Asset Management Contribution per capita	In comparing asset management contributions amongst comparable municipalities, the Town is at the high end with $380 per capita and Barrie just slightly lower at $360 per capita. Penetanguishene is at the low end of comparables with contributions per capita of $43. This shows the Town has been proactive to ensure funds are available to undertake state of good repair work as infrastructure ages.
Tax-Supported Asset Management Contribution Relative to Replacement Value	In comparing asset management contributions relative to replacement value of tax-supported assets amongst comparable municipalities, the Town is on the high end of comparables. In terms of yearly asset management contributions, the Town has a contribution value of about 1.3% of asset replacement value with Clearview and Midland each at 1.2%. On the low end of comparables is Springwater, New Tecumseth and Penetanguishene with each at 0.2% of replacement value.

C. SWOT ANALYSIS

This section provides a summary of some of the key strengths, weaknesses, opportunities and threats considered as part of the development of the LRFP.

i. Strengths

- Low debt levels with good fiscal management
- An infrastructure capital levy for state of good repair
- ARS funds used to support the capital budget allows flexibility to respond to changes in funding levels
- Strong and diverse growth outlook (with reference to The Orbit)

ii. Weaknesses

- Tax burden rests largely on residential taxpayers
- 10-year capital plan is extensive
- Reliance on OLG revenues can put capital plan at risk

iii. Opportunities

- Reserves can be managed through a comprehensive reserve and reserve fund policy
- Debt as a financing tool can be used to advance critical capital needs
- Continued use of the capital levy for long-term asset management
- Strategically located lands for employment uses (Innisfil Heights)

iv. Threats

- Changing DC legislation is limiting funds available for growth-related capital
- Costs of infrastructure continue to increase from various external factors (tariffs, labour shortages, financing costs, energy prices)
- Risks to OLG revenue, a key funding source for capital, which is dependent on demand at Gateway Casinos Innisfil

3. LRFP Model and Key Assumptions

This section provides an overview of the LRFP Model as well as the main assumptions used in completing the analysis. The LRFP Model provides estimates over a 20-year horizon with a base year of 2026 and forecast years of 2027 to 2046. For the purposes of this LRFP, the report focuses on the 10-year forecast 2027-2036. The Town's 2025/2026 operating budgets and 10-year capital forecast from 2025-2034 inform the capital and operating forecasts included in the analysis.

The intention of the LRFP is not to represent a proposed budget for the Town. Rather, it is a forecast based on the capital and operating program needs anticipated at this time.

A. All Tax Supported Programs Are Included

The financial model includes capital and operating estimates for all tax-supported services which have been categorized for modelling purposes. While the model categories may differ slightly from the annual budget, the categories are intended to better align with forecast growth assumptions and are service based. The categories are as follows:

- Council
- General Government
- Fire Protection
- Library
- Parks and Open Spaces
- Recreation
- Transportation Network
- Building Permit & Inspection Services
- Police Services
- Stormwater Management
- Innisfil Transit
- Information Technology
- Planning Services
- Engineering Services

B. The LRFP Financial Forecast Is Derived From A Series Of Price And Volume Drivers

The Town's 2026 operating budget forms the basis of the operating forecast. Beyond 2026, the application of a series of price and growth or volume drivers are used to inform the analysis. Generally, the growth forecast informs the volume drivers and include growth in population, employment, households, or some combination thereof. Volume drivers also include "capital induced operating" impacts: where new facilities, vehicles, or infrastructure are planned through the capital forecast, an operating impact is incorporated into the model to account for additional staffing needs, maintenance costs, and other operating costs.

The model includes price drivers, allowing for costs to be increased to account for inflation and volume drivers which account for the effects of increases in demand on services from growth. The LRFP Model allows for easy adjustment of all price and volume drivers, as needed.

C. INFLATION IS EXCLUDED FROM THE FORECAST

The financial forecast does not currently consider inflation; all costs are in constant 2026 dollars. The primary objectives of the LRFP is to identify potential fiscal challenges as they relate to Town services and potential policy recommendations to address these challenges. Inflationary pressures are not a factor the Town can control, rather they are driven macroeconomic conditions. Furthermore, given recent geopolitical events (tariffs, oil price shocks, etc.), inflationary pressures are becoming increasingly difficult to predict. Excluding inflation from the analysis ensures that the effects of policy changes can be isolated in the analysis.

The model allows for the addition of a constant inflation rate, if required. Even at a moderate inflation rate of 2 per cent, the cumulative impact of inflation on costs could be significant. However, inflation will also have a corresponding effect on the assessment base and resulting property tax revenue which could offset some of this impact.

D. THE CAPITAL FORECAST INCLUDES GROWTH-RELATED CAPITAL AND PROVISIONS FOR CAPITAL RENEWAL AND REPLACEMENT

The capital forecast focuses for both growth-related capital and provisions for capital renewal and replacement over the next 20-year period, based on the Town’s 10-year capital forecast from 2025-2034. This information has been supplemented through a review of capital projects, costs and timing based on staff consultation and updates based on master planning documents, including updated costs from the recent Fire Master Plan for Station 6 and supporting infrastructure.

For years beyond 2034, assumptions have been made to incorporate provisional costs that reflect both the Town’s growth and the need to maintain infrastructure in a state of good repair. While these provisions are high-level estimates and do not reflect specific projects, they have been informed through detailed consultation with Town service area staff.

Funding for the capital program is provided from a combination of development charges, community benefits charges, parkland dedication or cash-in-lieu, various capital reserves and reserve funds, grants and other contributions, and the addition of long-term debt as a financing tool.

E. THE FORECAST IDENTIFIES THE NEED FOR FUTURE DEBT FINANCING

Debt financing has been assumed over the forecast period to ensure that capital projects can be undertaken when needed based on the capital program and to ensure that reserve levels and tax rates remain stable over the forecast period. For the analysis, new debt financing has been assumed over a 20-year term at 4.5% interest rate.

F. ASSESSMENT IS FORECAST IN RELATION TO GROWTH IN NEW HOUSING AND NON-RESIDENTIAL FLOOR SPACE

Forecast assessment increases are in relation to the growth forecast of the Town's most recent DC Background Study with adjustments to the initial years of the forecast and future expectations. The assessment forecast is prepared for each property class so that the appropriate weighting and discount factors are applied.

Only net taxable weighted assessment is included in the forecast. This refers to assessment that is weighted by multiplying the tax ratio for each property class times taxable assessment in that same class. This approach does not change the assessment forecast projections but simplifies the approach. It is noted that tax ratios are set by the County of Simcoe and no changes to the existing tax ratios are assumed.

The assessment of new buildings tend to have higher values than existing buildings, and therefore the assessment value assumptions are based on an average of a sample of buildings constructed over the past five years. Where sample sizes are limited (mostly for the non-residential forecast), other municipalities in Simcoe County were referenced to source a benchmark. The basis of the residential forecast is average assessed values for new dwellings by type (e.g. singles and semis, multiples and apartments). The average assessed value per square metre of new building space by property type (e.g. Industrial, Retail Commercial, Non-Retail Commercial, Institutional) are the basis of the non-residential forecast.

The assessment forecast does not account for market value changes over time, reflective of the approach in the financial forecast based in constant 2026 dollars, although the model allows for easy adjustment of assessment values as needed. It is also recognized that the Province has postponed re-assessments for an indefinite period of time and continue to reflect phased-in 2016 assessment values, which was the time of the last Provincial re-assessment.

G. THE LFRP IS A NEEDS BASED MODEL

The LRFP model is designed to reflect funding levels required to undertake the needs identified through capital projections, operating estimates and assumed growth. Accordingly, the associated tax impacts represent the full funding required to meet projected costs. This approach provides the Town with a benchmark analysis to identify gaps and challenges in the fiscal projection going forward.

With this tool, the Town can conduct sensitivity testing on funding levels, cost projections and policy to refine the forecast over time. While this approach supports the budget process, it does not replace it. It also differs from a typical cash-flow approach, which would limit spending to available funding rather than reflecting the full scope of projected needs.

4. KEY MODEL FINDINGS

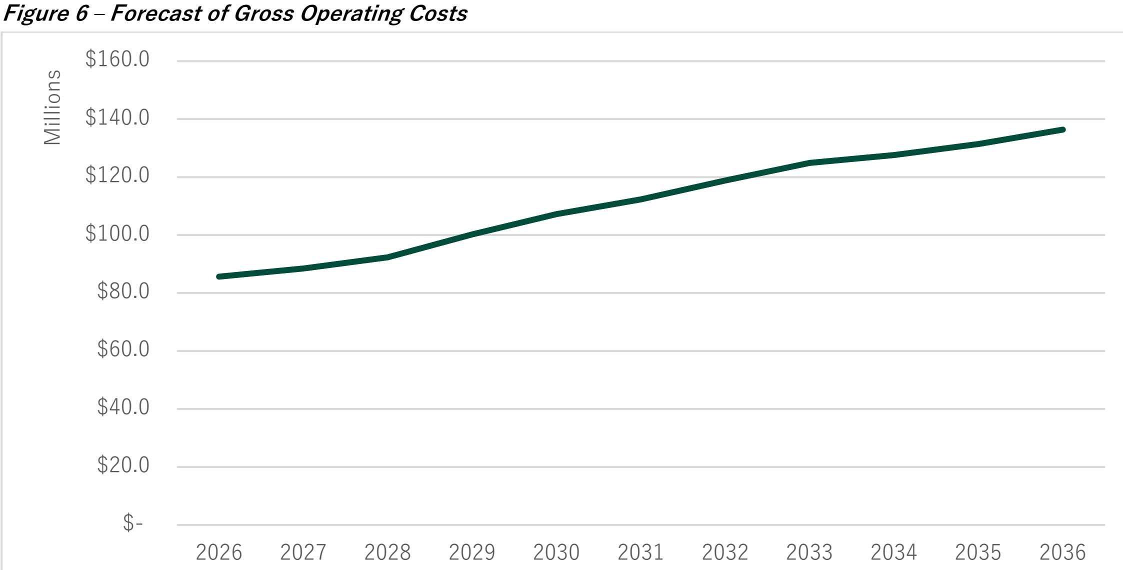
This section summarizes the outputs of the LRFP Model as shown in the table below. Sections A through G discuss the base scenario. Section H discusses the findings of a mitigation scenario, which considers the forecast under a case where capital needs are spread over a longer-time period.

A.	Operating Expenditures	E.	Debt Management
B.	Non-Tax Revenues	F.	Assessment Growth
C.	Capital Forecasts	G.	Taxation Forecast
D.	Reserves and Reserve Funds	H.	Mitigation Scenario

A. OPERATING EXPENDITURES WILL CONTINUE TO INCREASE WITH GROWTH

Figure 6 provides a summary of the annual forecast of gross operating costs for the 2026-2036 period, with the first year of the forecast in 2027. In summary, general operating costs amount to about $85.7 million in 2026 growing to about $136.4 million by 2036. The average annual real increase is about 5%. This increase is attributed to continued growth in the Town over the forecast period and the corresponding increase in costs to maintain services as new growth-related infrastructure is acquired or emplaced.

Figure 6 – Forecast of Gross Operating Costs

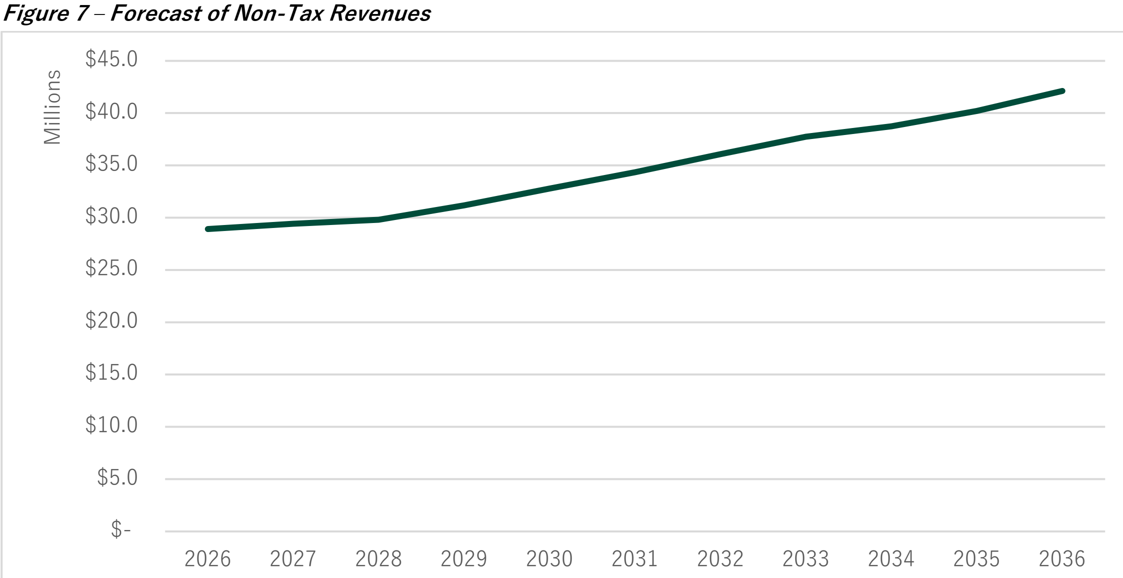


Note: General operating costs include cost such as Wages and Benefits, Material and Supplies, Utilities, Contracted Services, Rents and Financial, Conservation Authority, Library, and Grant, Internal Recoveries/ Transfers, Library Board, Police Board, and Other Expenditures. Excludes debt payments and transfers to reserves which are reported separately in this chapter.

B. NON-TAX REVENUES ARE GENERATED WITH ADDITIONAL POPULATION

Municipalities, including the Town of Innisfil, have limited revenue-raising tools available. The main source of funding is through property taxation revenues. User fees and service charges, investment income and grants and subsidies are some of the other resources the Town has available as a means to raise revenue. Figure 7 depicts the non-tax revenue forecast for the period 2026-2036. Like the operating expenditure forecast, the non-tax revenue forecast is driven by volume and capital induced drivers. The largest share of non-tax revenues can be attributed to Registration and Facility Fees, Permits and Other Development Fees and other User Fees, Licences and Fines totalling about $10.1 million in 2026. External recoveries and OLG revenues each total $7.1 million in 2026, which makes it one of the biggest contributors to non-tax revenues for the Town. Total non-tax revenues amount to about $28.9 million in 2026 growing to about $42.1 million by 2036.

Figure 7** – **Forecast of Non-Tax Revenues



Note: Includes Registration and Facility Fees, Permits and Other Development Fees, User Fees, Licenses, and Fines, Penalties and Interest, Interest and Dividends, Ontario Lottey and Gaming (OLG), External Recoveries, External Grants and Other Revenues. Excludes transfers to reserves, Payments in Lieu and Supplementary Taxation which are reported separately in this chapter.

C. CAPITAL FORECAST TOTALS $2.3 BILLION TO 2046

Like many municipalities, Innisfil has established a detailed 10-year capital plan covering the 10-year period from 2025 to 2034, however, comparatively less information is available regarding longer-term servicing needs. The Town's capital budget includes both growth and non-growth related capital projects. For the purposes of the LRFP, Hemson collaborated with Town staff to forecast capital works required beyond 2034. Hence, this section of the report presents the capital forecast for the period from 2026 to 2046. Extending the planning horizon provides important context for identifying potential gaps and challenges before they occur.

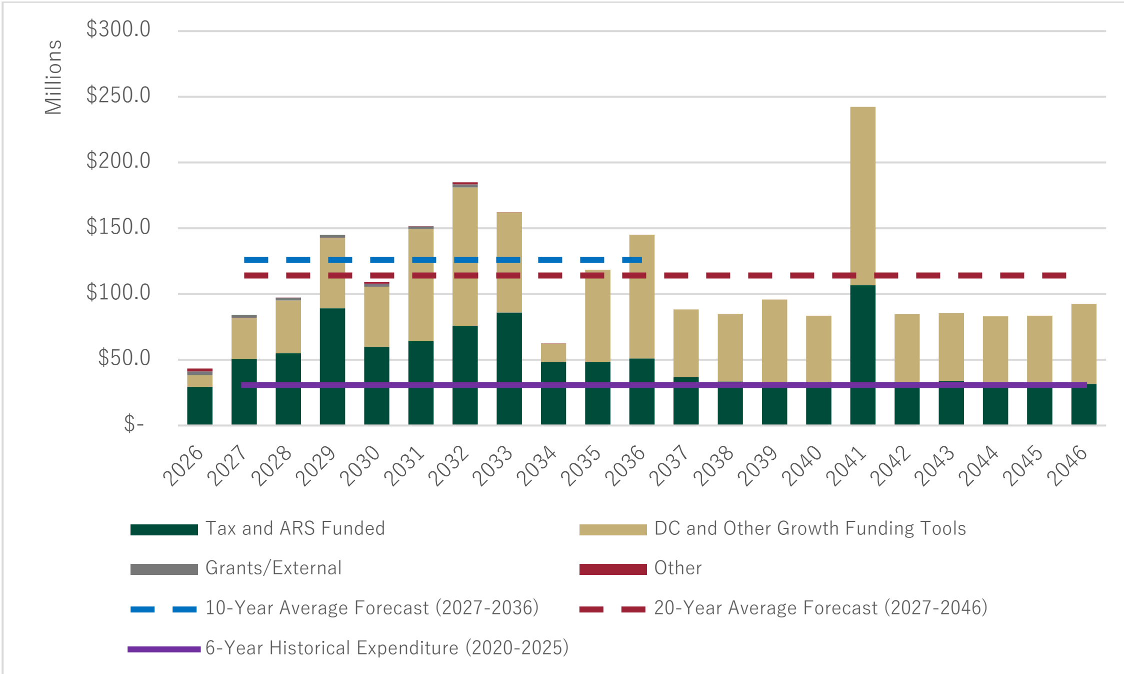
Many municipalities in Ontario, including Innisfil, impose development charges to pay for growth-related infrastructure*. The Development Charges Act, 1997* provides the authority to impose these charges and provides strict limitations on their calculation. The Town manages spending of this growth-related capital through its development charge reserve funds. In addition to development charges, funding sources for growth-related capital include community benefits charges, parkland dedication and cash-in-lieu, grants, and tax sources for non-development charge eligible shares of projects and developer contributions.

For non-growth related capital, the Town utilizes its reserves and reserve funds to ensure capital can be undertaken when needed. These reserves and reserve funds are funded from various sources including the capital levy, OLG funds, grants and other tax funded contributions to reserves.

Figure 8 outlines the capital program by its assumed funding sources over a 20-year forecast period. Over the period 2027-2046 the total cumulative spending amounts to about $2.3 billion. This is made up of about $1.3 billion for the 2027-2036 period. An additional $1.0 billion in capital for the 2037-2046 period. There are some key observations:

- Historically, the Town’s 6-year annual capital expenditure has averaged about $30.8 million (2020-2025, in constant 2026 dollars).
- This contrasts with expected expenditures averaging $126.0 million annually from 2027 to 2036, representing annual spending of over 4 times the 6-year historical annual capital expenditures.
- The 20-year average of forecasted capital needs from 2027 to 2046 amounts to about $114.2 million, representing annual spending about 3.7 times the 6-year historical annual capital expenditures.
- The significant increase in expected capital expenditures relative to historical capital expenditures is driven by capital projects related to roads and facilities, along with stormwater and other engineering projects. A majority of the Town’s projects with high up-front costs are associated with roads and facilities capital works.

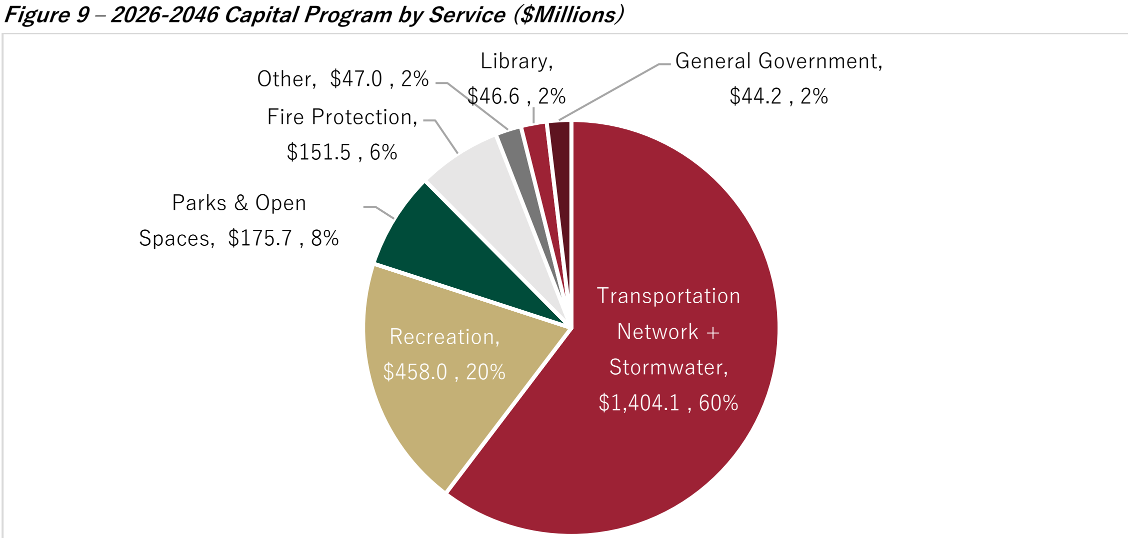
Figure 8 – Forecast of Capital Expenditures by Funding Sources



Note: Values shown in constant 2026 dollars. Excludes previous years' unspent and approved capital costs.

Figure 9 provides a breakdown of the 2026-2046 capital program by service. Transportation Network and Stormwater capital spending represents the largest share, at $1.4 billion million or 60%, followed by Recreation accounting for another $458.0 million or 20%. Parks and Open Spaces make up $175.7 million (8%) while Fire Protection makes up $151.5 million (7%). The remaining $137.7 million (6%) is made up of Library, General Government and other service areas.

Figure 9 – 2026-2046 Capital Program by Service ($Millions)



Note: The "Other" category includes Building Permit & Inspection Services, Police Services, Innisfil Transit, Information Technology, Planning Services, and Engineering Services.

In addition to the $2.3 billion in capital needs shown in Figure 8 and Figure 9, $195.9 million in capital spending relates to previously unspent and approved capital from previous years' budgets. This amount is also included as part of the LRFP forecast assuming that these costs would be undertaken over a 5-year period of 2026-2030.

D. NOTIONAL RESERVES PROJECTED TO INCREASE TO MANAGE CAPITAL NEEDS

Given the capital expenditure needs outlined in Part C and calculated contributions to reserves, a forecast of reserve balances has been undertaken. Reserves and reserve funds have been categorized consistent with Town policies and to facilitate forecasting in the model. The following outlines the results related to reserves, with a focus on the reserves utilized for non-growth shares of capital: the ARS reserves and tax funded capital reserves.

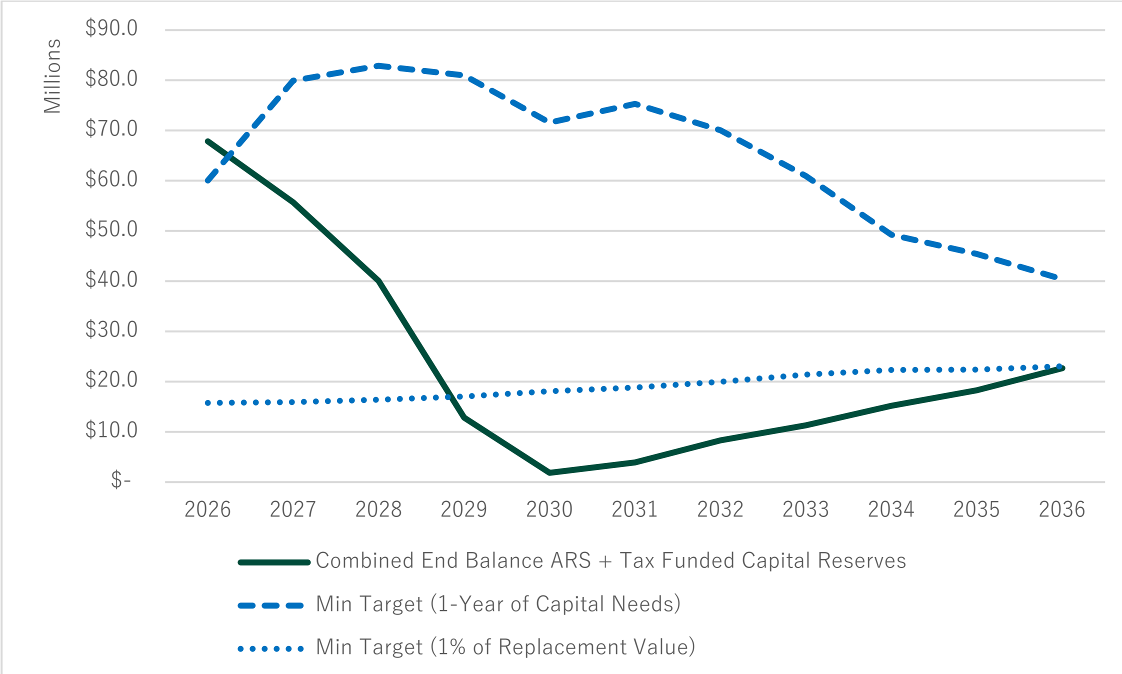
For purposes of model forecasting, the ARS reserve fund and tax funded capital reserves combined are utilized to fund any state of good repair capital forecast and shares of growth-related projects that are not eligible for development charge funding. In addition, the notional projection assumes:

- In addition to the capital needs shown in Figure 9 funded from the ARS and tax funded capital reserves, $74.9 million in capital spending relates to previously unspent and approved capital from previous years' budgets. This amount is also included as a draw from reserves assuming that these costs would be undertaken over a 5-year period of 2026-2030.

- Recognizing that the Town will be constructing and acquiring net new infrastructure to service growth, provisions for long-term repair and replacement of this infrastructure is assumed to be averaging about $14.0 million per year. The LRPF model assumes these amounts as commitments against the reserve balances shown in Figure 10. These amounts represent savings for needs once new infrastructure requires repair or replacement at the end of its design life in the future.

Figure 10 shows the projected combined ARS reserve fund and tax funded capital reserves to 2036 (solid line). The combined estimated ending balance in 2026 amounts to about $67.9 million. The notional projection shows reserves nearly depleting by 2030, increasing to about $22.7 million by 2036.

Figure 10 – Forecast of Ending Balance for the Combined ARS and Tax Funded Capital Reserves



Note: Projected reserve balances represent cash reserves which represent balances excluding past commitments of approved capital. Reserve balances are high-level notional projections used to identify capital pressures.

The outcomes presented in Figure 10 can be explained as follows:

- It is assumed OLG funding is expected to continue and that real increases to OLG funding would be aligned, in general, to population growth.
- The capital levy is assumed to continue to increase by 1% of the blended tax rate for the average home over the period.
- Noting the continued need to undertake capital while maintaining reserve levels from entering a negative position, debt financing has been utilized. About $318.9 million in tax funded debt financing has been assumed to maintain reserve fund levels shown in Figure 10 and is assumed to be funded through taxation.
- Reserve levels decline quickly over the first few years of the forecast, nearly depleting by 2030. This is driven by up-front costs to undertake capital needs in the capital projection. As a result, the measures outlined above were assumed to be sufficient to maintain reserve levels above zero.
- After 2030, increasing contributions to reserves from the 1% capital levy and additional tax funded debt financing enable reserves to begin to recover. However, the main driver of the drop in reserve levels continues to be the magnitude of the capital program.

- The reserve projection is measured against two benchmark targets. The first is based on a minimum target equivalent to sufficient funds to undertake 1-year of capital needs (dashed line). Reserve levels are currently above this target, however over the forecast period due to the projected decline in reserve levels, the balance would remain below the target over the 10-year period. The second is based on a minimum target equivalent to 1% of asset replacement value (dotted line). Reserve levels are currently above this target, but would reach below the target by 2030. The reserve levels would recover back to this target by the end of 2036. These benchmarks are discussed further in Section 5 of this report.

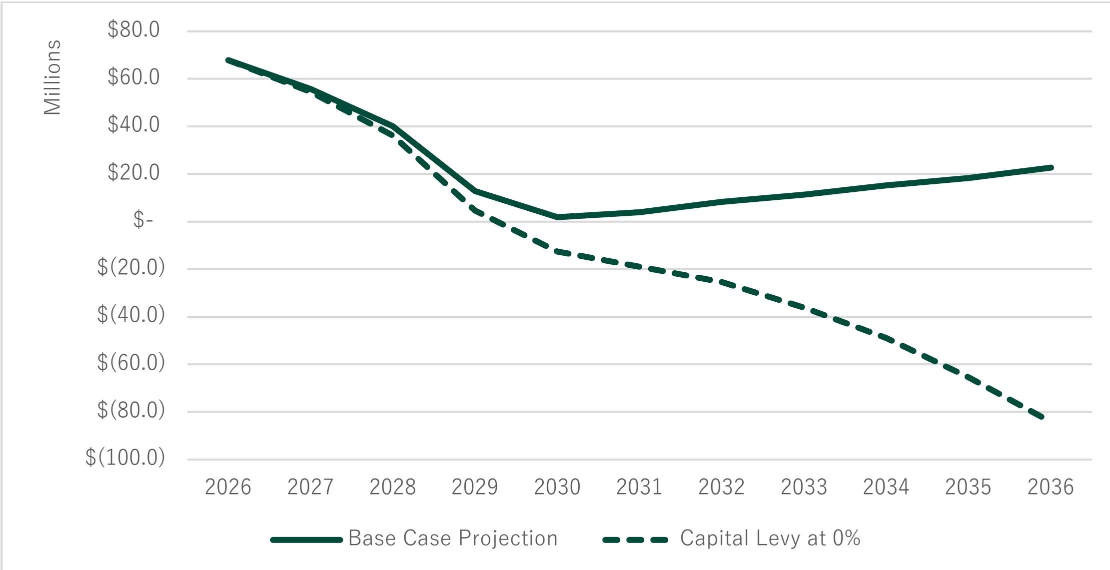
While notional reserve levels tend to build up over the final few years of the forecast, it is important to recognize that the measures above are necessary to ensure that funds are made available to undertake capital works. To test the magnitude of the effect tax funded capital needs have on reserve levels, an alternative scenario was considered:

- Figure 11 demonstrates how the reserve balances would change year-over-year given the same level of debt financing assumed in the base scenario, but the capital levy is set to 0%.

- Under this scenario (dashed line), insufficient funding would be available to undertake the tax funded capital needs to 2036, which would result in reserve funds being depleted by 2030. Debt financing alone, which spreads the costs of capital over a longer period, would not be sufficient. The difference of about $106.9 million between the reserve balances at 2036, represents an amount of tax funded capital that would need to be deferred if no other funding sources are available.

- Figure 11 illustrates a notional reserve outlook, it would not be prudent for the Town to undertake capital works above and beyond funding levels available. However, it is illustrative that without alternative funding sources, additional tax funding complemented with debt financing as a fiscal tool may be necessary to undertake the tax funded capital program. In the absence of these options, capital projects in the initial years of the capital program may need to be deferred.

Figure 11 – Combined ARS and Capital Reserve Fund Ending Balance – Comparison of Scenario with 0% Capital Levy



Note: The base case represents the balances shown in Figure 10 (solid line).

E. THE TOWN WILL NEED TO RELY ON DEBT FINANCING FOR CRITICAL CAPITAL

Provincial regulations set limits on the amount of debt a municipality can carry to ensure continued operations in a fiscally sound manner. In Ontario, the Municipal Act mandates that a municipality's annual debt repayment limit must not exceed 25 per cent of annual own-source revenues. The Town of Innisfil also has its own debt limit of 20 per cent of own source revenue. As per the Town's Debt Management Policy this limit provides 5% flexibility to address emergency issues.

While debt can fund a range of municipal costs, for equity purposes, it is best for projects that provide benefits over a longer timeframe to distribute the burden of capital costs between the current taxpayer and future ratepayers. Innisfil currently has debt payments at levels equal to about 3% of its own source revenues. However, through the LRFP Model process it was determined that further debt financing would be required over the 10-year forecast period to stabilize annual tax rate increases and balance against projected development charge revenues while meeting the increased spending needs associated with the Town's capital forecast.

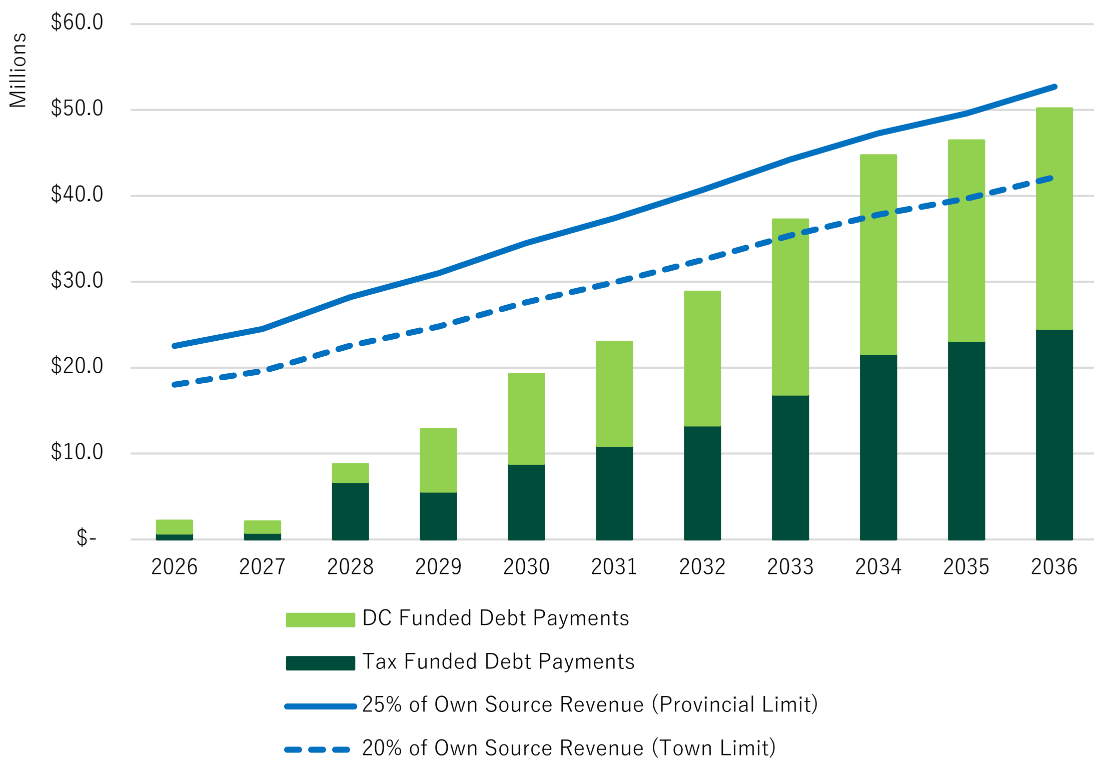
Figure 12 provides the Town's total projected debt payments by 2036 for both growth and non-growth funded debt. By 2036, total debt payments would amount to about $50.2 million per year. The following observations can be made:

- Total debt payments are driven by the need to undertake capital over the 10-year forecast period to 2036. The capital needs are extensive; therefore $318.9 million in tax-supported debt financing is assumed. A further $450.4 million in debt financing is assumed for growth-funded capital needed to ensure that the DC reserves remain in a positive position to 2036.

- By 2033, the Town's total debt payments would exceed the Town's municipal debt limit of 20% of own source revenues, while staying below the Provincial limit. It is noted that by 2037, the Town would reach the Provincial limit of 25% of own source revenue.

- The identified debt financing needs, reflecting the outlook of the capital program, are estimated at about $769.3 million by 2036. This level of debt financing is significant, representing more than half of the total capital requirements of $1.3 billion over the 2026 to 2036 period. Changes to the capital program to manage extensive projects or increased funding from other sources would result in corresponding changes to overall capital financing needs.

Figure 12 – Forecast of Debt Payments vs Limits



F. THE ASSESSMENT BASE WILL GROW

The basis of property taxes in Ontario is the assessed value of real property (land and improvements). The diversity and "richness" of the assessment base are indicators of a municipality's financial strength and flexibility. In particular, a high non-residential assessment share is an indicator of fiscal strength given that non-residential properties tend to place less demand on municipal services than residential properties and typically pay proportionally higher taxes.

The Town of Innisfil currently has a total weighted assessment value estimated at approximately $9.8 billion (for 2026), including a residential assessment value of about $8.9 billion and a total non-residential assessment value of $882.1 million.[1] The forecast anticipates these assessment values growing at an average rate of just under 3.0% annually over the period 2027 to 2036, as shown in Figure 13. Importantly, the assessment forecast is predicated on several factors:

- The Town's expected growth is significant, and the assessment forecast is predicated on this growth occurring. The Orbit Secondary Plan area is expected to create significant growth opportunities with development occurring as early as 2030 based on the Orbit Secondary Plan and discussions with Town staff. This growth would make up about 43% of assessment growth in the forecast to 2036 and just under half of assessment growth by 2046. The remainder would be supported by development in other areas of the Town.

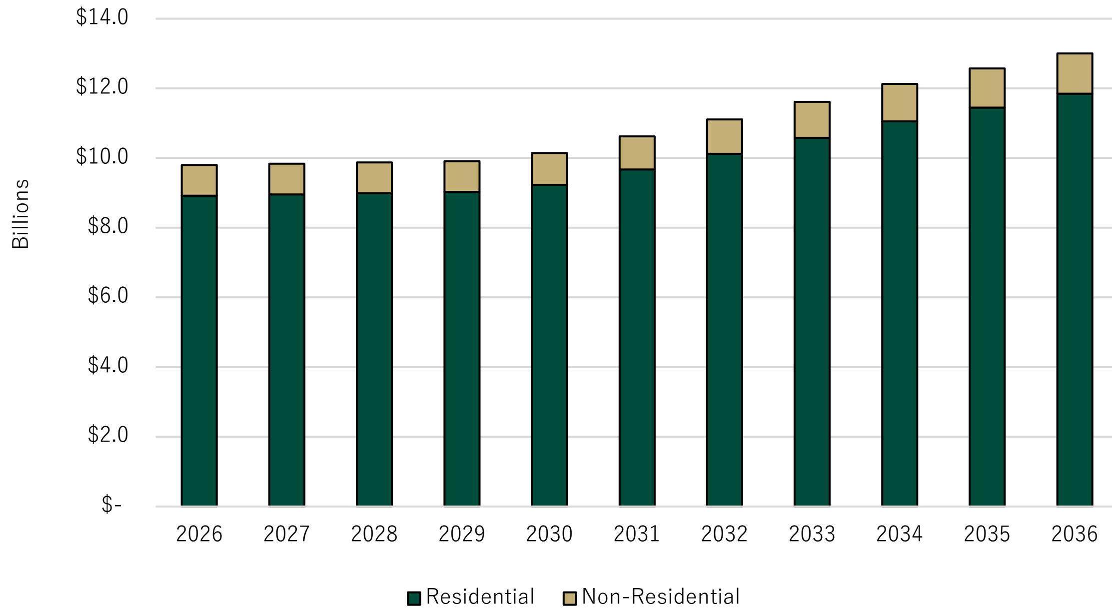
- Assessment growth in the near term 2027-2029 is assumed to be about 0.4% recognizing an expected slower rate of development activity.

- Over the 10-year period to 2036 assessment growth averages about 2.9%. The initial increase is driven by assessment growth from the Orbit Secondary Plan area and increased development activity projected for the remainder of the Town, which is as high as 4.7% starting in 2031 when the Orbit is assumed to come online.

- The ratio of residential to non-residential assessment remains constant over the forecast period at about 90:10, respectively.

[1] The forecast uses weighted taxable assessment, which refers to assessment for each property class multiplied by its tax ratio. No changes to tax ratios are assumed in the forecast. The total weighted assessment for the base year of 2026 has been estimated. For this report, any references to assessment refers to weighted taxable assessment.

Figure 13 – Forecast of Weighted Taxable Assessment



G. TAX INCREASES ARE NEEDED TO MEET LONG-TERM NEEDS

Figure 14 shows the real tax bill impact in the Town, when considering the overall tax bill.[2] The typical tax bill is based on an average household with assessment value of about $446,000. Figure 14 shows that over the first five years of the forecast period, real annual typical bill increases are projected to average just under 7.0% per year in the base scenario. Over the 10-year forecast period to 2036, the real increases are slightly lower on average at 4.8% annually. The typical bill increases are driven by several factors:

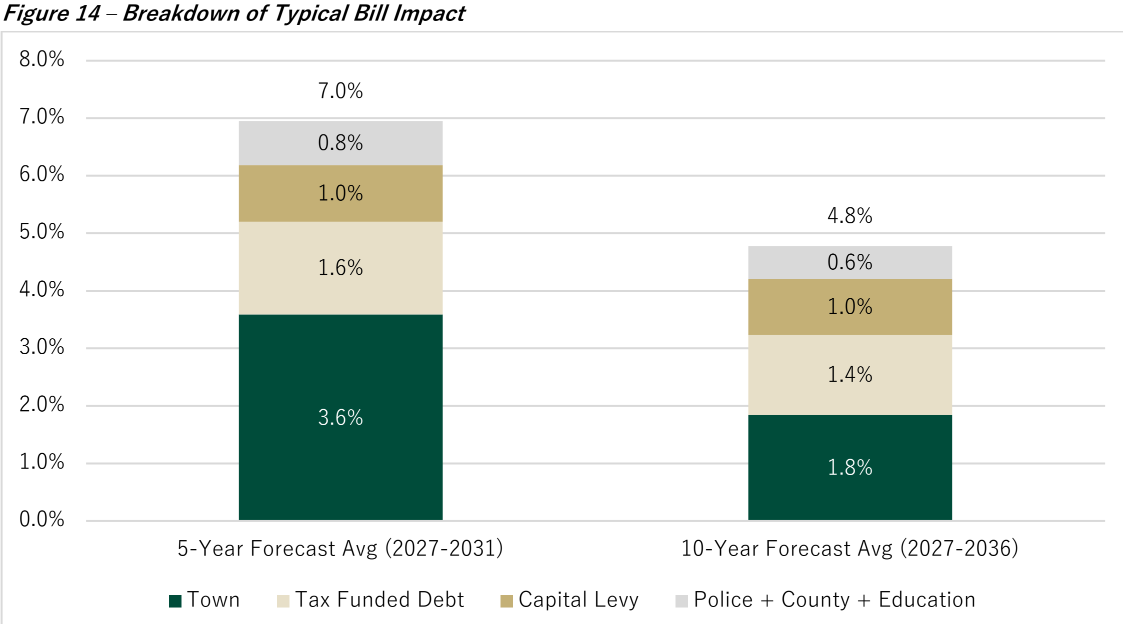
- Increased demand for services creates additional expenditure needs. Operational needs are expected to continue to increase as the Town grows and new infrastructure is emplaced.
- Tax funded capital needs to support non-growth shares of growth-related capital as well as state of good repair requirements continue to increase. This includes continued provisions for the annual capital levy at 1.0% of the combined bill for the typical home. Also included are additional tax funded debt payments required to finance capital needs as discussed in the previous sections amounting to about an average of 1.6% over the 5-year period and 1.4% over the 10-year period. In the absence of debt financing and

[2] For the purposes of this analysis the typical bill includes assumptions on future annual average County and Education real tax rate increases: County 1.5% per year and Education 0.5% per year. This approach is consistent with Town budget reporting on the typical bill impact which includes Town, County and Education portions.

given the significant capital needs identified in the forecast, the forecasted tax levy increases would be more severe. In addition to the strategic use of debt, the Town may choose to mitigate projected tax increases by prioritizing capital projects and/or phasing certain operating expenses, such as staff additions.

- It is assumed that County and Education taxes would continue to increase. Services provided by the County and through the boards of education are independent from Town services, therefore tax increase are not the responsibility of the Town. However, the combined tax bill is ultimately borne by the same group of taxpayers. Increases at the County or board of education level, combined with tax decisions at the Town level, will have a combined impact on residents and businesses in the Town.
- The Town's share of South Simcoe Police Service (SSPS) costs is assumed to increase on average by about 3.7% per year over the 10-year period. This is in line with population and employment growth expected in the Town. SSPS services are provided independently from other Town services, however it is also included as part of the overall tax bill.
- A portion of the tax bill increases will be offset by assessment growth related to new development over the forecast period and is predicated on the assumption of significant growth occurring in the Orbit Secondary plan area. If assessment growth occurs at a level lower than projected, tax rate increases would be higher than forecast, all else being equal.

Figure 14 – Breakdown of Typical Bill Impact



Note: Typical bill based on average household with assessment of $446,000. Chart represents total blended typical bill increase. Assumes long-term average real tax rate increase of: County 1.5%, Education 0.5%.

The Town should consider several potential risks that could lead to future tax rate pressures, as shown in the analysis. These include:

- An extensive capital program, with significant expenditures identified over the forecast period well exceeding historical patterns of spending;
- Long-term asset repair and replacement needs, beyond what can be funded from the capital levy;
- Decreased DC revenues as a result of changing legislation and slowing development activity;
- Capital costs for new development-related facilities may exceed permissible funding from DCs;
- Operating cost increases (e.g. salaries, utilities, maintenance) needed to meet service demands as the Town grows. These increases are above what is needed to meet general market price increases;
- Lower-than-anticipated assessment growth and taxation revenue due to slowing development activity. This could result in some reduction in capital needs and reduced growth in operating costs; however, additional tax rate pressures may still arise;
- The overall economic climate of today which has brought on a continued increase to interest rates, above "average" inflation from several factors including tariffs and supply shortages. Cumulatively, the Town will need to manage these cost pressures as they persist, which can be expected to remain strong in the near term; and
- Recognizing the LRFP is a point in time analysis, the projection may not necessarily capture all costs in future years as reliable information may not be necessarily available today. Nonetheless, these costs represent risks to the Town. For example, the Town may need to consider the costs associated to the expansion to the Royal Victoria Hospital in future updates to the LRFP.

H. TAX IMPACTS CAN BE MITIGATED OVER THE LONG-TERM

The previous sections outlined the results of the analysis from a needs based perspective, recognizing that the Town must undertake capital needs based on existing master plans, asset management plans, legislative requirements and policy directives in order to maintain acceptable levels of service. However, the results of the analysis mean that tax increases would need to be higher to achieve the capital needs.

Recognizing the outcomes of the base analysis, an alternative scenario was developed to assess the impacts on the notional residential tax bill of deferring short-term capital needs. The capital deferral scenario assumes the following:

- Capital needs are deferred from both the 5-year and 10-year forecast periods. This approach recognizes capital needs will need to be reprioritized to ensure that the capital program is feasible and more affordable.

- 20-year capital needs totaling $2.3 billion are maintained. This approach recognizes that while some capital can be deferred, the Town continues to grow creating the need for new infrastructure while existing assets are aging creating the need to maintain assets in state of good repair. It would not be appropriate to defer capital needs for an indefinite period.

- Recognizing the deferral of capital, debt financing needs are adjusted to reflect the timing of the capital requirements.

- No assumptions are made on the specific projects that have been deferred. This is to recognize that the Town needs to ensure that major capital projects are prioritized to reflect a more feasible 10-year capital plan at the time of budget development.

The following outlines the key outcomes:

Capital Projections

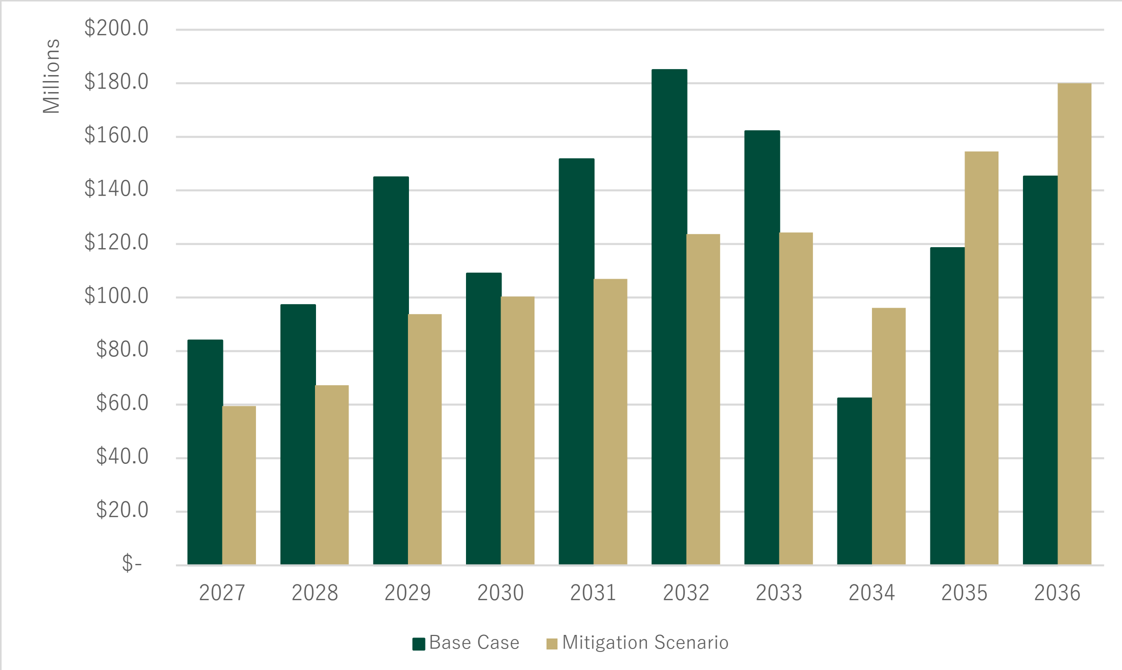
Figure 15 shows the annual capital expenditures in the base case versus the mitigation scenario. The scenario shows:

- In the base case, the 5-year total capital needs (2027-2031) total about $586.5 million while in the mitigation scenario the 5-year total capital needs amount to about $427.8 million. The difference of about $158.7 million is attributed to capital needs deferred beyond 2031.

- In the base case, the 10-year total capital needs (2027-2036) total about $1.3 billion while in the mitigation scenario the 10-year total capital needs amount to about $1.1 billion. The difference of about $152.8 million is attributed to capital needs deferred beyond 2036.

- It is also noted that the 20-year capital needs totaling $2.3 billion to 2046 are unchanged. While certain capital projects can be deferred to a later period, the needs are unchanged. The Town will continue to grow and assets will age creating the need for the Town to respond by constructing new infrastructure and maintaining assets in state of good repair.

Figure 15 – Summary of Annual Capital Expenditure Base vs Mitigation (2027-2036)



Combined ARS and Capital Reserve Fund

Figure 16 shows the comparison of reserve ending balances in the base case versus the mitigation scenario. The results of deferring capital results in more favourable balances over the forecast period in the mitigation scenario:

- Capital needs continue to put pressure on reserves over the shorter-term, with reserve levels declining to just over $13.0 million by 2030/2031, resulting in less risk than the base case.

- Reserve levels begin to recover after 2031, reaching similar levels to current, at about $67.4 million by 2036.

- In the mitigation scenario, about $152.8 million in capital needs have been deferred outside of the 10-year period (beyond 2036). The build-up of reserves in the back-end of the forecast is attributed to this deferred capital. Recognizing that reserves would need to be available to undertake capital needs beyond the 10-year period.

Figure 16 – Forecast of Ending Balance for the Combined ARS and Tax Funded Capital Reserves – Base vs Mitigation

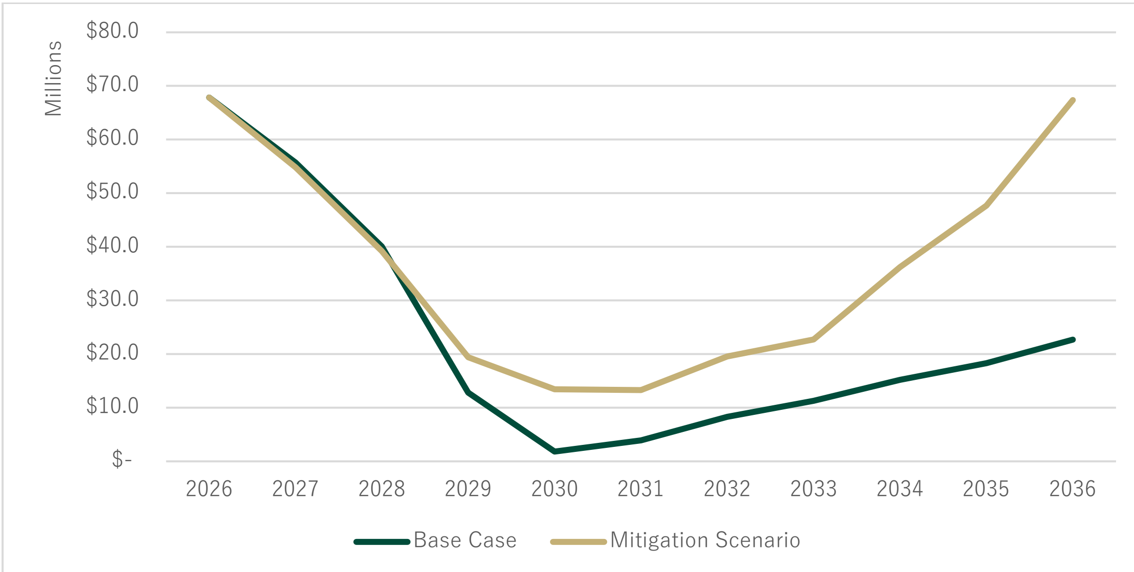


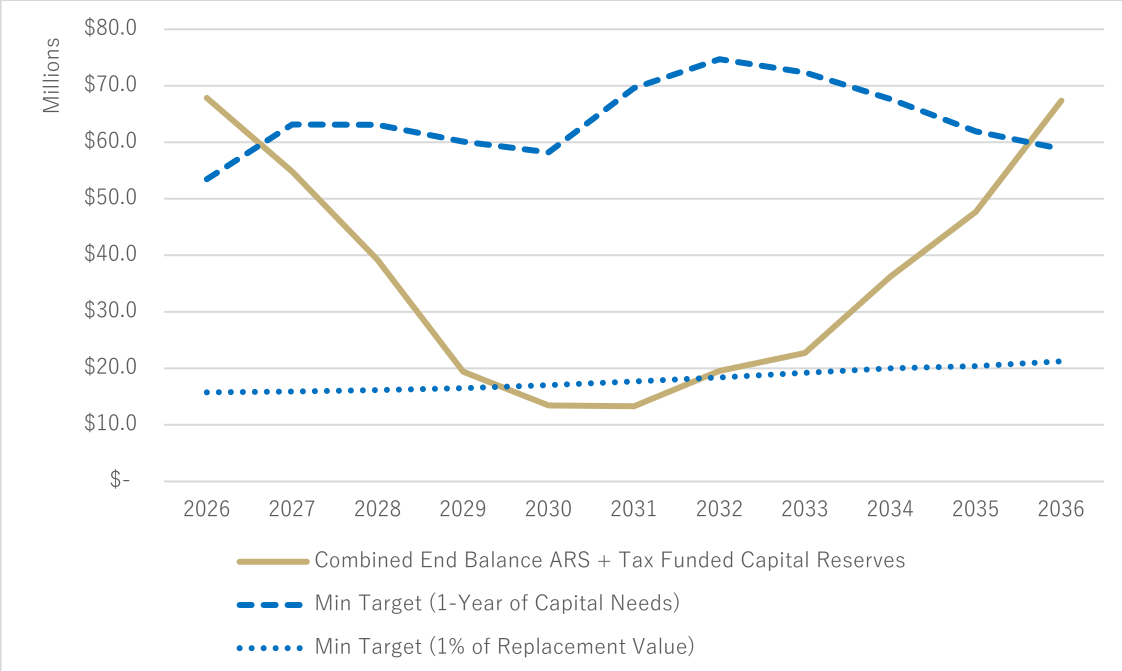
Figure 17 shows the reserve balances in the mitigation scenario compared to the benchmark minimum targets. The figure shows:

- By 2027, the projection shows that the reserve levels would be below the minimum target of 1-year of tax funded capital needs. Over time, as the reserve levels recover, the minimum target would be reached again by the end of the forecast period in 2036.

- The projection shows that reserve levels would decline to below 1% of asset replacement value in 2030 and 2031. However, the reserve levels would be well above this value in all other years.

These results show that benchmark targets could be achieved given adjustments to capital needs to better balance the first 5 to 10-years of the capital program. These benchmarks are discussed further in Section 5 of this report.

Figure 17 – Forecast of Ending Balance for the Combined ARS and Tax Funded Capital Reserves – Mitigation Scenario



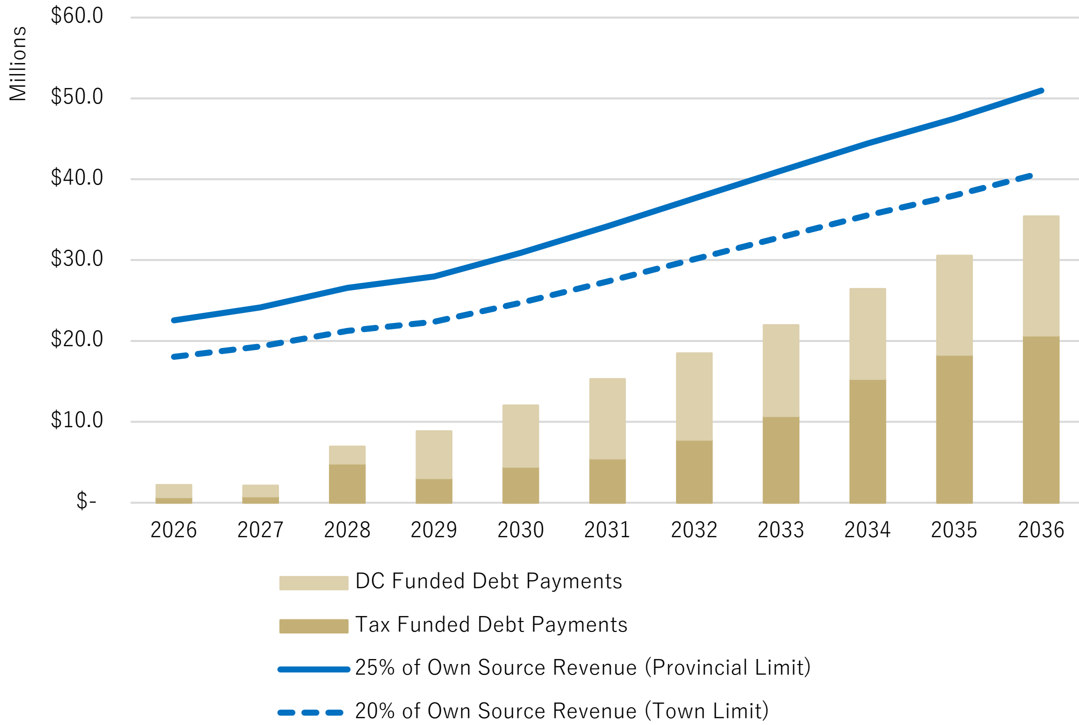
Debt Financing Needs

As previously discussed, in the base case the Town would reach its internal policy debt limit of 20% of own source revenue by 2033. This would create challenges for the Town by limiting the ability to undertake major capital when its needed. Figure 18 shows debt payments relative to limits in the mitigation scenario.

- In the scenario, the Town's debt payments would be projected to be below the policy limit by 2036 at about 17% of own source revenue.

- Over the longer-term the Town would not reach the policy debt limit until 2038. While the needs for capital over the long-term are similar, short-term prioritization of capital will reduce debt requirements while freeing debt financing room for future projects.

Figure 18 – Debt Payments Relative to Limits in Mitigation Scenario



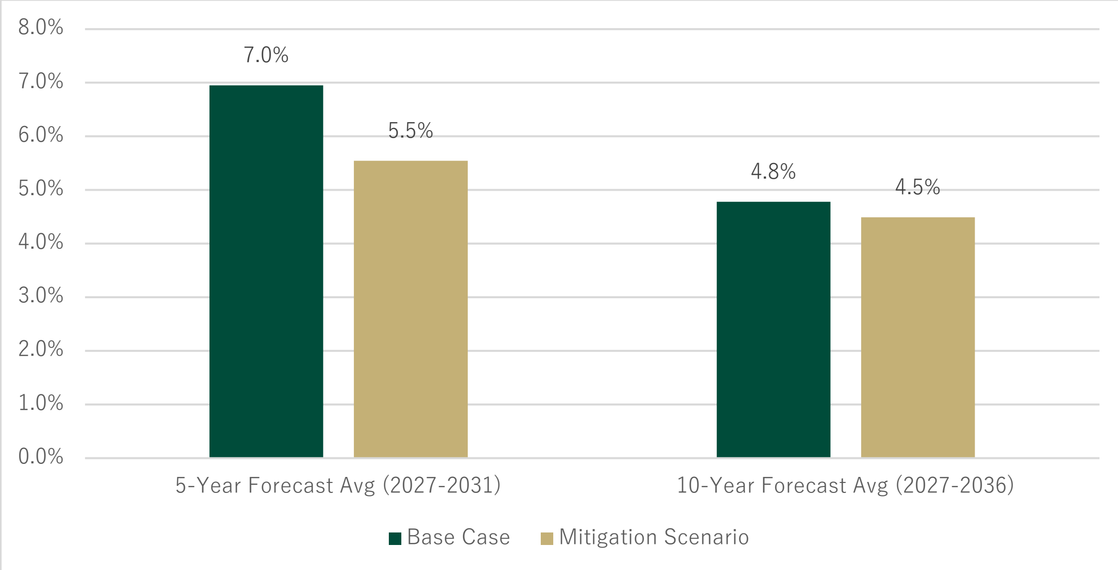
Tax Impacts

Figure 19 shows a comparison of the typical bill impact in the base case versus the mitigation scenario. In the base case the 5-year forecast average tax bill increase is about 7.0% compared to the mitigation scenario at about 5.5%. In the base case the 10-year forecast average tax bill increase is about 4.8% compared to the mitigation scenario at about 4.5%. The reduction is driven by the following:

- Deferring capital needs particularly for growth-related infrastructure, implies that the operating impacts to maintain the new infrastructure is not needed over the immediate term. This provides opportunity to prioritize both operating and capital needs that require immediate attention while balancing tax increases.

- Capital requirements better balanced over the short-to-medium term means that debt financing needs can be balanced as well. Tax funded debt payments are reduced over the short-term, recognizing that capital needs are smoothed out over a longer period of time.

Figure 19 – Comparison of Typical Bill Impact (Base Case vs Mitigation Scenario)



Note: Typical bill based on average household with assessment of $446,000. Chart represents total blended typical bill increase. Assumes long-term average real tax rate increase of: County 1.5%, Education 0.5%.

5. Policy Review and Recommendations

This section provides a summary of the policy review undertaken as part of the LRFP. The policy recommendations are based on the analysis developed in the previous sections, as well as a review of the Town's existing policies and prevailing practices, particularly related to capital planning, reserve fund management, and the use of debt.

A. CURRENT FINANCIAL POLICIES ARE CONSISTENT WITH PRACTICES SEEN IN OTHER MUNICIPALITIES

Hemson has assisted the Town with a review of its financial policies with a particular focus on capital reserves, asset management, and debt management. A benchmark review of policies was undertaken to compare existing Town policies with other municipalities. In general, the following observations can be made:

- The Town's Debt Management Policy is consistent with those of other jurisdictions, ensuring that guidance is provided for debt issuance. The Town's debt limit is on the high-end of comparable municipalities that have debt limits lower than the Provincial mandate of 25% of own source revenue, the Town's current policy debt limit is 20% of own source revenue. The Town's current debt levels are at the low-end of comparable municipalities at about 3% of own source revenue. The Town's debt limit policy and low debt levels indicate Innisfil's commitment to fiscal responsibility. The Town has opportunities to strategically use debt to fund significant projects with long-term benefits, and/or to address lifecycle cost funding gaps, while avoiding sudden tax spikes.

- Reserves and reserve funds are managed through a set of policies including the Capital Budget Funding Policy and OLG Slot Revenue – Allocation and Utilization Policy. The Town's primary reserves for funding non-growth-related shares of growth projects is the ARS Reserve while a set of asset renewal reserves including the Discretionary Capital Reserve are used to fund state of good repair projects. Many municipalities comparable to the Town utilize a wide range of approaches to managing reserve levels. The Town would benefit from adopting a consistent approach to managing its reserves as outlined in this chapter.

- The Town's 1% Capital Levy sets money aside to help pay for the repair and replacement of existing assets, or new assets and projects that aren't eligible for funding from development charges. Many municipalities have started to employ similar capital infrastructure levies which typically range from 1% to 3%. The Town has been proactive in implementing the levy to reduce reliance on external funding and build reserves for long-term sustainability of assets. However, a minimum 1% capital levy will continue to be needed over the long term as current funding levels are insufficient to undertake long-term capital needs.

- The Town generally plans for its long-term capital program by identifying needs through various master plans, studies and objectives of Council. However, identified needs are extensive and funding these needs would require tax increases that could be beyond the fiscal capacity of residents to absorb. Therefore, the Town will need to be proactive to ensure future iterations of the 10-year capital plan reflect an approach that can be sustainable. In particular, focusing on immediate capital needs and reviewing major projects that could be undertaken in future years.

B. DEBT FINANCING SHOULD BE UTILIZED AS A FISCAL TOOL

The Town's Debt Management Policy sets an annual limit at 20% of own source revenues, leaving a 5% buffer in case of unforeseen needs (relative to the Provincial 25% limit). The debt policy sets out eligible capital works and guiding principles for the use of debt.

The Town has utilized debt financing in the past to undertake major capital works including the Cookstown Library, SSPS Admin Building, Town Hall and the Innisfil Recreation Centre. Despite these debt obligations, the Town has debt servicing capacity available under the Provincially mandated limit and existing policy limits. However, the extensive capital forecast presents a fiscal challenge that would require additional debt financing. While Innisfil strives to limit its debt obligations, debt can be a highly effective fiscal tool to help manage annual cash flow, maintain service levels as growth occurs, and match long-term intergenerational benefits with long-term cost recovery.

The Town is also in a unique position with its water and wastewater services managed through the Municipal Service Corporation InnServices. Debt obligations associated to InnServices are independent of the Town's debt obligations which frees up debt servicing capacity for tax funded services. Debt under InnServices is not considered under the Town's Debt Management Policy.

The Town can consider the following recommendations in relation to the management of debt:

- It is recommended that the Town consider the strategic use of debt, as appropriate, for major capital investments. The use of debt should be guided by considerations for affordability, equity and fairness, and fiscal flexibility and sustainability.

- The timing, type, and term of debt should be determined with the objective of minimizing long-term costs while aligning cost recovery with the long-term benefitting horizons of key projects to promote intergenerational equity. The Town will likely need to use debt financing in the immediate term to undertake major capital which creates the need to monitor debt limits carefully.

C. DEVELOP A COMPREHENSIVE RESERVE AND RESERVE FUND POLICY TO CONSOLIDATE EXISTING FRAMEWORK

Innisfil maintains a number of capital and operating reserves to help smooth out expenses, surpluses, and deficits related to various accounts. The financial forecast shows significant pressure on tax funded capital reserves therefore close monitoring of reserve levels will be required over the coming years. The Town does not currently have a comprehensive reserve and reserve fund policy, rather reserves are managed through various documents.

It is recommended that the Town establish an overarching Reserve and Reserve Fund Policy establishing guidelines related to the maintenance of reserves, including considerations for ongoing financial stabilization and appropriate reserve levels by reserve type. To monitor reserve levels over time and ensure that the Town can maintain fiscal sustainability the following measures are recommended:

- The Town should consider creating a Reserve Report for critical reserves, including the ARS Reserve and Tax Funded Capital Reserves. The Reserve Report should set out:
  - The name of the reserve;
  - The source of funds;
  - Authority for the expenditure of funds;
  - Reserve level minimum, maximums, and/or target levels;
  - The term of the fund, along with the ultimate disposition of the funds; and
  - Whether interest accrues to the reserve balance.
  - All Reserve Reports should be reviewed and updated as needed, and at a minimum of every five years.

- It is recommended that external revenues, primarily OLG revenues, continue to be allocated primarily to non-DC eligible growth-related capital shares and state of good repair. Furthermore, the Town should aim to reduce its reliance on external revenue sources for asset management to ensure more stable contributions to address critical renewal needs. This can be achieved by supplementing contributions to reserves from taxation through the capital levy. Supplementing OLG revenues would need to be achieved over the long-term, as immediately replacing these revenues through taxation would have significant short-term tax impacts.

- It is recommended that the Town develop target balances/contributions for asset management reserves to ensure that reserves remain at sustainable levels and provide spending guidance when developing the capital budget. The following are targets the Town should consider:

  - Minimum balance of combined ARS and Tax Funded Capital Reserves as a percentage of replacement value (1.0% to 3.0% is recommended). It is recognized this would be achieved over the long-term.
  - Contributions to reserves set to a target reinvestment rate. The reinvestment rate is calculated as the contribution to asset management reserves as a ratio of the replacement value of assets. A typical target would be in the range of 1% to 3%.[3] The total combined contribution to ARS and tax funded capital reserves in 2026 totals about $26.6 million, this equates to about 1.7% on a total replacement value of $1.6 billion.
  - Reserve balance minimum amount sufficient to undertake 1 to 3 years of forecast tax funded capital spending. It is recognized this would be achieved over the long-term.
  - Historical average annual capital spending versus projected average annual capital spending.
  - Maintaining the capital levy at a minimum of 1% of the blended tax rate increase for the average home.
  - Aligning annual budget spending guidelines for asset management related projects to the average annual renewal need. The Town will need to ensure that the annual renewal needs are clearly identified through future updates to the asset management plan.

- Recommended that the fiscal measures above are tracked annually through the budget process. All the measures should be tracked collectively to ensure that long-term reserve balance targets can be achieved.

[3] The Canadian Infrastructure Report Card 2016 indicates that while there are no industry standards for this target, it typically ranges from 1% to 3%.

- Consider balancing the first 5-years of the capital program in line with historical spending patterns while considering the targets proposed. This will ensure capital spending is feasible and does not generate higher than acceptable tax increases.

The LRFP Model will serve as a valuable tool to monitor overall reserve levels over the long-term. In particular, it will help staff identify whether there are any deficiencies in annual operating transfers to capital reserves. Where low or negative balances are projected, the need for adjustments may be triggered (e.g. through debt funding or additional transfers from operating). Staff could undertake sensitivity testing and evaluate any potential tax rate impacts stemming from these adjustments.

Some examples of strong reserve and reserve fund policies, many of which include reserve target balances, are provided below:

- City of Barrie Financial Policies Framework
- Town of Ajax Discretionary Reserve Administration, Discretionary Stabilization Reserves, and Discretionary Capital Reserves policies
- City of Guelph General Reserve and Reserve Fund Policy
- Town of Whitby Asset Management Reserve Fund and Growth Reserve Fund
- Town of Oakville Reserve/Reserve Fund Procedure

D. CAPITAL LEVY SHOULD BE MAINTAINED AT A MINIMUM OF 1%

The Town's 1% Capital Levy sets money aside to help pay for the repair and replacement of existing assets, or new assets and projects that aren't eligible for funding from development charges. Many municipalities, including Innisfil, are increasingly challenged with meeting growing asset management needs as they mature and their infrastructure ages. For this reason, the Town has been proactive in implementing a capital levy.

To undertake the Town’s capital needs over the next 10-year period, the LRFP analysis shows that the capital levy would need to be maintained at a minimum of 1.0% of the blended tax rate increase for the average home over the long-term. This recognizes the magnitude of the capital program. This would still result in short-term pressure on the tax funded capital reserves and additional debt financing would also be needed. This would achieve funding the state of good repair capital program by gradually increasing funding over time. This recommendation also provides a balance between maintaining reasonable tax rate increases and gradually increasing funding for state of good repair over a longer period.

The Town will continue to undertake comprehensive reviews of its infrastructure gap and asset management strategy through future Asset Management Plans. The capital levy should be reviewed at the time of the next asset management plan update in 2030[4], at which point adjustments to the annual increases can be considered. This approach would align in developing a more robust analysis of lifecycle needs from which to measure the appropriateness of the capital levy. The LRFP model can be used in future years to test the fiscal implications of the outcomes of the AMP.

E. EXPLORE OPPORTUNITIES FOR ALTERNATIVE FUNDING SOURCES

The Town, like all municipalities in Ontario, have limited funding tools. The Town's primary source of revenue for services continues to be property taxes. Other funding sources include user fees and charges, investment revenues and grants from other levels of government. However, these funding sources alone are not sufficient to meet the full needs of a growing Town. While alternative funding sources continue to be limited the Town should explore opportunities where possible. These include:

- The Town's stormwater system protects homes, businesses, and the environment by managing rainwater and melting snow. Stormwater runs off hard surfaces like roads, rooftops and parking lots, flowing into drains, ditches, and ponds, eventually reaching creeks, rivers and the lake. Without the proper management, stormwater can lead to flooding, erosion and pollution. The Town's stormwater services are funded mostly through the property tax, which means costs are not tied directly to how much runoff or load a property generates on the stormwater system. The Town can explore opportunities to implement a stormwater fee, which is becoming more common across municipalities.

- The Federal and Provincial governments have recently made announcements for funding critical infrastructure to enable housing development through the Build Communities Strong Fund.[5] The program provides funding for municipalities in several

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[4] O. Reg 588/17 Asset Management Planning for Municipal Infrastructure requires updating the asset management plan every 5-years. The next update is expected in 2030.

[5] See https://housing-infrastructure.canada.ca/bcsf-fbcf/index-eng.html

key areas including housing enabling and community infrastructure. Of particular focus is targeted funding for municipalities that can reduce development charges to achieve housing objectives achieved through the grant programs.[6] The Town should monitor developments on the requirements to become eligible for these funding opportunities.

- While external funding opportunities for state of good repair are limited, the Town should continually monitor Federal and Provincial programs that may help offset some of these costs. State of good repair is primarily funded through taxation and existing external grants such as the CCBF, but any additional external grants would offset the burden on the tax levy.

[6] See https://www.pm.gc.ca/en/news/news-releases/2026/03/30/prime-minister-carney-secures-new-partnership-ontario-cut-taxes

6. SUMMARY OF RESULTS

A. SUMMARY OF LRFP FINDINGS

i. Innisfil is Currently in a Healthy Fiscal Position

The Town has historically been fiscally efficient by controlling tax increases beyond unreasonable levels. The Town has maintained low debt levels and maintained reserves for long-term capital needs. The Town maintains a strong Debt Management Policy and the available room within both the Provincially mandated and self-imposed debt limits that will allow it to take on strategic investments while avoiding sudden tax rate spikes. The Town also manages its expenditures through maintenance of a number of reserves and the responsible use of OLG revenues. The Town has been proactive, and has funds dedicated to funding non-growth shares of growth-related capital and asset state of good repair through a dedicated capital levy.

ii. The Current 10-Year Capital Forecast Needs are Higher than Historical Spending

The tax impacts forecasted are reflective of the forecast needs to respond to the needs of growth and maintain levels of service. Excluding inflationary impacts, annual real tax bill increases average about 7.0% in the short-term to 2031, or about 4.8% over the forecast period to 2036.

These tax impacts are primarily related to the scale of the current 10-year capital plan, which far exceeds historical capital spending rates. The tax levy forecast assumes maintaining the current 1.0% capital levy and includes the use of debt financing over the forecast period, reaching the Town's policy debt limit by 2033.

The Town will need to prioritize capital projects as part of its annual budgeting processes, consistent with historical practices, and it is likely that not all capital projects in the forecast will occur within the 2027-2036 period. In addition, the Town may also use debt, available reserves, and the phasing in of certain operating expenses and capital needs to mitigate sudden tax rate increases. For these reasons, a mitigation scenario which proposes to defer capital needs over the long-term, was developed. This scenario is reflective of a more smoothed approach to ensure capital spending is gradually increased over time. This scenario shows annual real tax bill increases average about 5.5% in the short-term to 2031, and about 4.5% over the forecast period to 2036. This impact is lower than the base case.

The LRFP Model can be used on an ongoing basis to test potential impacts of various scenarios (e.g. removal or addition of projects, different funding scenarios, use of debt), inform annual budgeting processes and identify any potential emerging fiscal pressures.

iii. Opportunities Exist to Set a Strong Policy Framework for Long-term Financial Sustainability

The LRFP will allow the Town to continue to work towards its objectives as it continues to grow over the coming decades. The Town has financial policies and practices in place, which will be further strengthened with additional emerging policies and continued use of the LRFP Model. While existing policies are not recommended to be overhauled significantly, the Town will benefit from a formalized reserve and reserve fund policy and the maintenance of reserve reports. Several fiscal measures has been recommended, which can be tracked collectively through the budget process and the LRFP model. Furthermore, the Town is being proactive in developing a framework to develop a 10-year capital plan that is more aligned with funding availability over the coming years.

As the Town grows and evolves, it should continue to invest in this important financial work, monitor successes, challenges, and emerging issues as plans are implemented, and revisit its fiscal policies to ensure these needs continue to be addressed.

B. CONCLUSIONS AND NEXT STEPS

The LRFP process has resulted in a comprehensive understanding of the Town's current and forecast financial position, how its current financial policies and practices are performing, and how fiscal policies can be used to support long-term financial sustainability.

Following the adoption of the LRFP Report, it is recommended that appropriate staff be assigned to take ownership of the financial model. The model will be an important tool to support continued efforts toward long-term fiscal sustainability.

While the intention of the model is not to replace the Town's annual budgeting processes, it can inform any long-term financial planning decisions. A comprehensive update of the model generally should be undertaken approximately every five years; the Town may choose to have these updates coincide with census years so that the impacts of the changing population, employment and household growth rates can be evaluated or alternatively to align with terms of Council. The model allows for sensitivity testing, without the need for a comprehensive update, on an as-needed basis.

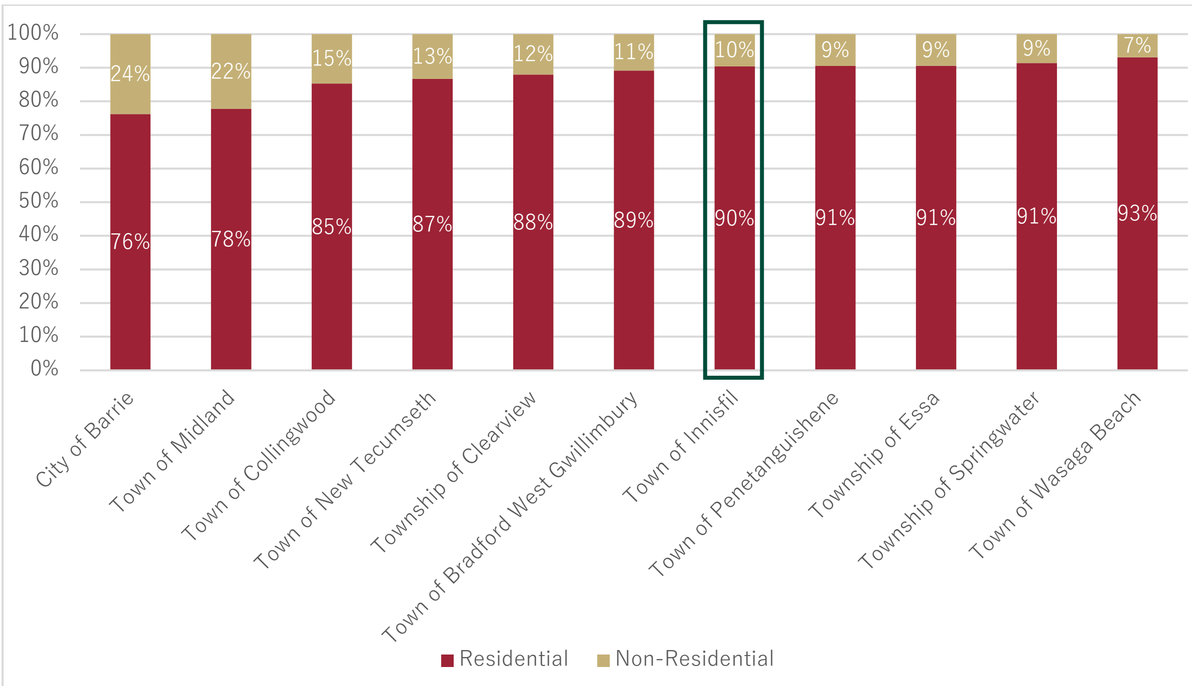
APPENDIX A

BENCHMARKING REVIEW

A. TAXABLE WEIGHTED ASSESSMENT

Figure 1 shows the break down of the Town's taxable weighted assessment as compared to other municipalities. Innisfil has a residential weighted assessment share of approximately 90 per cent and a non-residential share of 10%. While the Town has a stable and well-diversified local economy, this share is below the average of 13 per cent among the municipal comparators. Innisfil is reliant on the residential tax base which may make it more difficult to absorb significant tax levy increases, however this conclusion can be said for many of the Town's neighbours and comparators in the analysis.

Figure 1 – Comparison of Residential Weighted Assessment Base



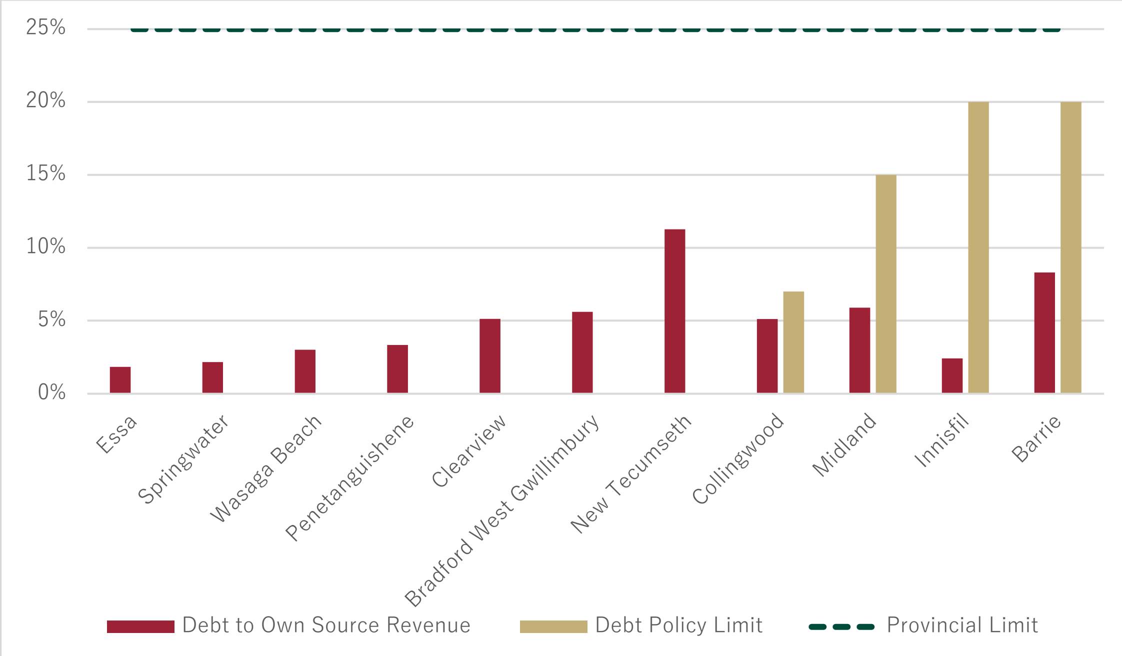
Source: 2023 Financial Information Returns.

Note: Multi-residential, Farmland, and Managed Forests assessments are included with residential, but make up a small share of total.

B. DEBT MANAGEMENT

Innisfil has available debt capacity to undertake future capital works. Figure 2 compares internal municipal debt limits and annual debt payments across a number of municipalities. Innisfil's municipal debt limit of 20% of own source revenues is comparable to and generally on the higher end of the municipalities surveyed, with most falling within the 7% to 20% range. For municipalities outside the sample, typical policy limits range from 10% to 15%. All municipalities surveyed currently use debt to some degree. Debt payments across each of these municipalities fall well within the municipal and provincial limits, and most commonly fall within the range of 2% to 11% of own source revenues.

Figure 2 – Comparison of Municipal Self-Imposed Limits and Current Debt Levels



Source: Annual repayment limit calculation is based on 2023 Financial Information Return data.

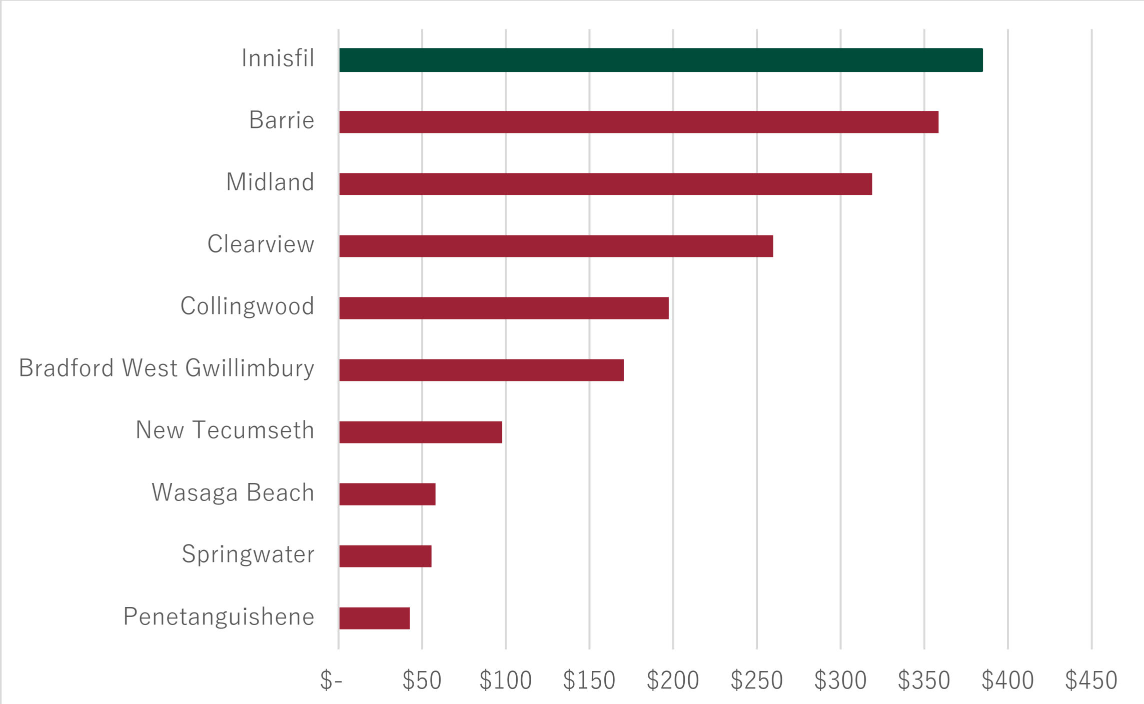
C. ASSET MANAGEMENT

Asset management contributions are required over the long-term to maintain the regular repair and replacement of municipal infrastructure and assets. Figure 3 shows annual tax funded capital contributions for state of good repair per capita. The Town of Innisfil contributes about $380 per capita towards asset management based on 2026 budget information. This is on the high end of comparable Ontario municipalities with Barrie and Midland just below the Town at $360 and $320 per capita respectively. Penetanguishene has the lowest contributions at about $43 per person.

The benchmark shows the Town has been proactive in planning for the future with contributions to reserves and the adoption of a 1% capital levy. It is important to recognize that this is a point in time analysis. The financial projections of the LRFP show that continued increases to contributions to reserves are needed to undertake the capital works.

Figure 4 shows the capital contribution towards state of good repair relative to the replacement value for tax funded infrastructure. Annual asset management contributions total about 1.3% of asset replacement value. This is on the high end of the municipalities surveyed and may reflect differences in the Town's needs compared to other municipalities. Innisfil's state of good repair investment needs will likely grow in future years, as reflected in the LRFP analysis and will place additional pressure on tax rates moving forward.

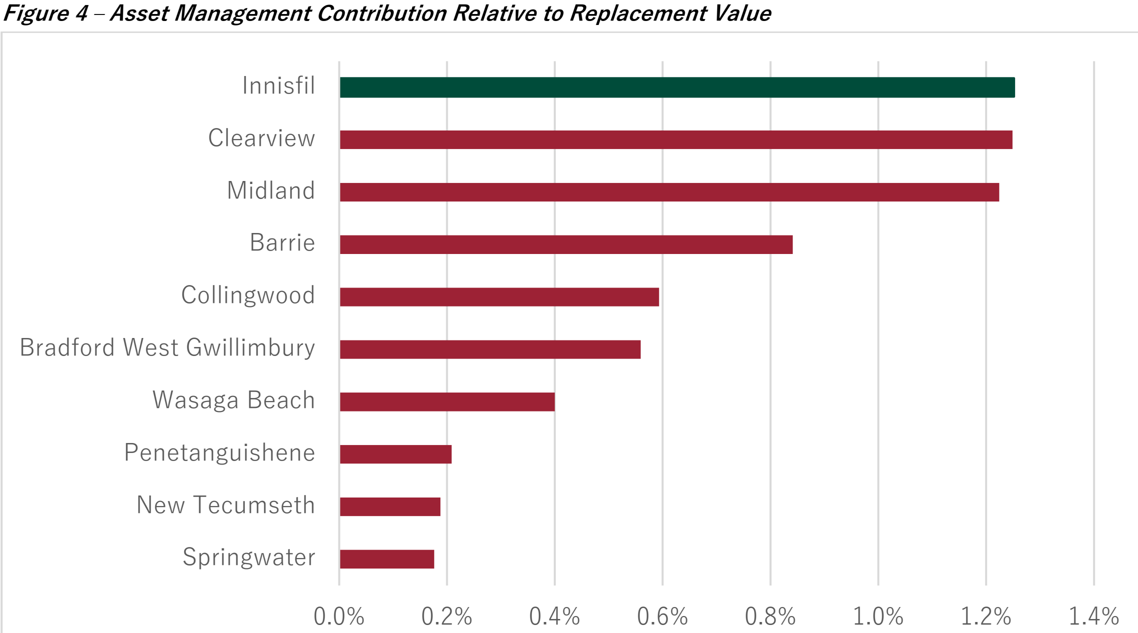
Figure 3 – Annual Asset Management Contribution per Capita



Source: 2025/2026 Municipal Budgets and Associated Documents (Operating Budgets, Reserve Overviews, Asset Management Plans, etc.).

Note: Best efforts have been made to ensure comparability across municipalities. Contributions reflect best estimates of tax funded transfers to capital asset management reserves including reserves for non-DC eligible shares of growth projects.

Figure 4 – Asset Management Contribution Relative to Replacement Value



Source: 2025 Municipal Budgets and Associated Documents. Replacement values adjusted to current dollars where needed.