THE CORPORATION OF THE TOWN OF AMHERSTBURG

OFFICE OF CORPORATE SERVICES

MISSION STATEMENT: Committed to delivering cost-effective and efficient services for the residents of the Town of Amherstburg with a view to improve and enhance their quality of life.

Author's Name: Justin Rousseau and Cheryl Horrobin	**Report Date: January 2, 2020**
Author's Phone: 519 736-0012 ext. 2259	**Date to Council: January 27, 2020**
Author's E-mail: jrousseau@amherstburg.ca / chorrobin@amherstburg.ca	**Resolution #: NA**

To: **Mayor and Members of Town Council**

Subject: **MMAH Financial Indicator Review (based on 2018 Financial Information Return)**

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1. RECOMMENDATION:

It is recommended that:

1. The report from the Treasurer dated January 2, 2020, regarding MMAH Financial Indicator Review (based on 2018 Financial Information Return) **BE RECEIVED for information**.

2. BACKGROUND:

Each year the Ministry of Municipal Affairs and Housing (Ministry) distributes a Financial Indicator Review report, based on the results reported in the Town's Financial Information Return (FIR) and Financial Statements. It also includes the comparative median and average results of other non-rural, lower-tier municipalities in Southern Ontario.

The Ministry has divided the indicators into sustainability and flexibility categories:

1. The **sustainability indicators** measure the degree to which a government can maintain its existing financial obligations both with respect to its service commitments to the public and financial commitments to creditors, employees and others without increasing the debt or tax burden. It also describes the impact that the level of debt could have on service provision. For example, if a government's net debt is eroding at a faster pace than own purpose taxation and user fees are increasing then this increases the risk that service levels cannot be maintained.

2. The **flexibility indicators** measure the degree to which a government can change its debt or tax burden to meet its existing financial obligations both with respect to its service commitments to the public and financial commitments to creditors, employees and others. Flexibility provides insight into how a government manages its finances. Increasing current borrowing reduces future flexibility to respond to developing adverse economic circumstances. Similarly, increases in taxation and user fees may a municipality's flexibility to respond when adverse circumstances develop if the municipality approaches the limit that citizens and businesses are willing to bear.

3. DISCUSSION:

The Financial Indicator Review (based on 2018 FIR) is attached as Appendix A. Page 1 of Appendix A lists the results of the seven (7) indicators that the Ministry is measuring. The 2018 review also includes the results of the previous four years (2014 through 2017) for purposes of comparison. Pages 2 and 3 of Appendix A provide notes on how each of the indicators is calculated.

The Ministry assigns a 'Level of Risk' to each of the indicators. For 2018, the Town falls into the **low** risk category in all but two (2) of the indicators. The "Debt Servicing Cost as a Percentage of Total Operating Revenue" is categorized with a **moderate** risk level and the Net Financial Assets or Net Debt as a % of Own Source Revenues continues to be categorized as **high** risk.

Each of the seven (7) financial indicators is discussed in detail below:

Sustainability Indicators

1. Total Taxes Receivable less Allowance for Uncollectibles as a % of Total Taxes Levied (measure of taxes billed but not collected)

Risk Level: **Low**

The Town has only 3.0 % of taxes that are classed as due and payable as at December 31, 2018, an improving trend over the 5-year period and favourable when compared to the other municipalities. The Ministry classifies this result as a low risk and the low percentage is indicative of taxpayers paying their taxes in a timely manner and demonstrates effectiveness of increased tax collection efforts by the Finance Division.

2. Net Financial Assets or Net Debt as a % of Own Source Revenue (Taxation Plus User Fees) (measure of how much property tax and user fee revenue is servicing debt)

Risk Level - **High**

Net financial assets or net debt is calculated by subtracting the Town's liabilities from its assets. The Town is in a net debt position, as the value of liabilities exceeds assets. When the net debt value is divided by the sum of own purpose taxation and user fees for 2018 the Town's ratio is **-106.6%**, which falls into the High risk category.

The Town has made progress over the past five years in reducing this factor, which has gone from -182.3% to -106.6% (a change of 75.5%), and is approaching the moderate risk ranking level. That said, based on the Town's historical reliance on debt funding and very limited reserve fund accumulation strategies the Town continues to carry risk well above local comparators.

Significant progress in enhancing reserve/reserve fund levels and pay-as-you-go funding are needed to move the Town toward a more comparable position with **local municipalities who average +19.6%** (low risk) for this factor, consistent with the Town's strategic priority of financial sustainability.

3. Total Reserves and Discretionary Reserve Funds as a % of Operating Expenses (measure of how much money is set aside for future needs and contingencies)

Risk Level – **Low***

For 2018, the Town's reserves were at 26.2% of operating expenses, which is significantly higher than 2014 levels and but is a decrease from the past two years.

*Though the Ministry classifies this as low risk the Town's ratio is still **well below** municipal comparators who hold an average ratio of 68.9%. A focused effort to increase the Town's reserves for future needs and contingencies would improve financial sustainability of the Town.

4. Cash Ratio - Total Cash and Cash Equivalents as a % of Current Liabilities (measure of how much cash and liquid investments could be available to cover current obligations)

Risk Level – **Low***

Total cash on hand plus the book value of the short-term investments is the numerator for this ratio. The denominator is the value of current liabilities, such as Accounts Payable.

At the end of 2018, the Town had a cash ratio that could accommodate payment of current liabilities at a rate of **1.43 to 1**. The year-over-year review of this indicator shows a large favourable increase since 2014. This is due to increased planning for cash outlay and movement toward a pay-as-you-go capital funding model to ensure current cash-flow commitments can be upheld.

*Though the Ministry classifies this as a low risk area for the municipality it should be noted the Town's cash ratio is well below the municipal comparator average of **3.54 to 1** and prioritizing reserve building for future obligations and contingencies is recommended to bolster financial sustainability.

Flexibility Indicators

5. Debt Servicing Cost as a % of Total Operating Revenue (measure of how much each dollar raised in revenue is spent on paying down existing debt)

Risk Level - **Moderate**

In 2018 the Town used **8.8%** of its annual operating revenues to cover debt costs. This falls into the moderate risk category. This is a sizable improvement over the previous four years that were assessed in the High risk category, including 2014 at which point the amount debt service cost demanded 12.9% of revenue.

The Town continues to require a higher percentage of revenue toward debt service cost than the **local comparators average of 5.0%,** which has also been trending downward over the past five years. That said, the Town continues to make good progress towards becoming less dependent on long- term debt. The improvement is attributable to the reduction in the Town's legacy debt and a concerted effort to reduce the Town's reliance on long-term debt and to move toward a pay-as-you-go funding model. Capital reserve planning for lifecycle tangible asset replacements and for new capital assets is strongly encouraged to enhance the Town's flexibility in maintaining services, responding to unforeseen circumstances and mitigating the risk of significant rate fluctuations for property taxes and user rates.

6. Asset Consumption Ratio – Closing Amortization Balance as a % of Total cost of Capital Assets (measure of how much of the assets' life expectancy has been consumed)

Risk Level – **Low***

The ratio indicates that based on accounting useful life, 42.70% of the depreciable assets have been used. This is categorized as a low risk. The ratio has increased over the 5-year period from a 2014 level of 37.3%. In comparison the average for local municipalities has moved from 34.9% in 2014 to 38.55 in 2018; which demonstrates that on average, comparator municipalities appear to be investing in asset renewal or new assets at a higher rate than the Town. This could be impacted by new infrastructure built in neighbouring municipalities that are experiencing significant growth.

It is important to consider that this ratio uses **historical** capital asset cost, not current replacement cost. Also, the amortization rates are based on accounting useful life, not actual remaining life based on the current condition of the asset.

The Town's Asset Management Plan recommends funding and a reserve strategy based on estimated asset replacement costs and involves collecting data on the condition of the assets. This, combined with a calculation of an optimal maintenance and replacement program, demonstrates the need for enhancements to the Town's reserves and allows for a more accurate quantification of the financial demands to maintain service levels provided by capital assets.

7. Annual Surplus/(Deficit) as a % of Own Source Revenues (measure of the municipality's ability to cover its operational costs and have funds available for other purposes (e.g. reserves, debt repayment, etc.)

Risk Level – **Low**

In 2018 the Town had an Annual Surplus ratio of 16.1%. This ratio is a significant improvement from the Annual Deficit ratio of -6.8% assessed as moderate risk in 2014. The Town's ratio is now more in line with comparator municipalities, which average 20.1%, though the Town's ratio remains below the average.

Despite the improvement, it is notable that while the Town's Annual Surplus ratio is more in line with comparators, the funds available for other purposes continue to be required for debt service, albeit with diminishing demand, rather than being set aside in reserves toward improving financial sustainability.

4. RISK ANALYSIS:

There is no risk related to the recommendation of this report.

However, continuing to evaluate the Town's financial sustainability and flexibility through financial management and monitoring (including ratio analysis and benchmarking) mitigates financial risk by informing recommendations and progress towards the Town's long-term financial goals.

5. FINANCIAL MATTERS:

In support of the key strategic goal of ensuring financial sustainability through a long-term financial plan and maintenance of adequate reserves, Administration will continue to review opportunities to further reduce the Town's reliance on short-term financing and long-term debt and to bring forward recommendations to increase reserve and reserve fund balances to support asset management and asset investment through a pay-as-you-go model and to provide for contingencies.

6. CONSULTATIONS:

None.

7. CONCLUSION:

The Financial Indicators Review is compiled by the Ministry of Municipal Affairs and Housing. The Financial Indicator Review is an assistive, though not fulsome, picture of municipal financial health. It can be used as a tool to identify potential problem areas associated with the financial status of the Town.

Based on the 2018 report, the Town falls into the low risk category in all but two of the indicators and has achieved positive trends over the five-year period in all but one factor, which is due to the service cost of legacy debt. Continued work to enhance financial sustainability and flexibility through a robust reserve strategy, combined with a pay-as-you-go approach to capital funding will support continued improvement in the Town's financial outlook and ability to respond to unforeseen challenges, while meeting service commitments to the ratepayers.

Justin Rousseau	Cheryl Horrobin
Treasurer	**Director of Corporate Services**

Report Approval Details

Document Title:	MMAH Financial Indicator Review (based on 2018 FIR).docx
Attachments:	- FITC19_Amherstburg T.pdf
Final Approval Date:	Jan 21, 2020

This report and all of its attachments were approved and signed as outlined below:

Cheryl Horrobin

John Miceli

Paula Parker