



## 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: Tracy Prince   | Report Date: August 18, 2023        |
| Author's Phone: 519 736-0012 ext. 2254  | Date to Council: September 25, 2023 |
| Author's E-mail: <a href="mailto:tprince@amherstburg.ca">tprince@amherstburg.ca</a> | Resolution #: NA                    |

To: Mayor and Members of Town Council

Subject: 2022 Year End Financial Ratios and Indicators

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#### 1. RECOMMENDATION:

It is recommended that:

1. The report from the Director of Corporate Services/CFO dated August 18, 2023, regarding 2022 Year-End Financial Ratios and Indicators **BE RECEIVED for information.**

#### 2. BACKGROUND:

Financial ratios quantify many aspects of a business and are an integral part of the financial position analysis. Management and financial analysts use financial ratios to compare the strengths and weaknesses in various companies.

Administration monitors financial and operational effectiveness indicators and benchmarking to validate the Town's related policies and processes and to identify opportunities for change that would improve operational outcomes.

The financial ratio analysis focuses on important indicators such as the Town's ability to pay its short-term debts (liquidity ratios), to efficiently issue a credit to its ratepayers/customers and collect funds from them in a timely manner (tax and accounts receivable ratios), and how much capital comes in the form of debt (loans) and or the Town's ability to meet its financial obligations (financial leverage ratios).

#### 3. DISCUSSION:

This report outlines key financial indicators and benchmarks for the Town based on the 2022 Audited Financial Statements, in comparison to the prior two years ended. Calculation details are shown in the schedule attached to this report.

## **Liquidity Ratios**

**Current Ratio:** This ratio is used to provide a picture of the Town's ability to pay back its short-term liabilities (debt and payables) with its short-term assets (cash, receivables). The higher the current ratio, the more capable the Town is of paying its obligations. A ratio under 1 suggests that the Town would be unable to pay off its obligations if they came due at that point in time.

The Ministry of Municipal Affairs and Housing (MMAH) evaluates this ratio as a sustainability indicator and identifies a ratio of greater than 0.5 to 1 as low risk, while most commercial banks call for a current ratio of no less than 1:1 or 1.25:1 as part of the banking covenants.

|   | <b>2022</b> | <b>2021</b> | <b>2020</b> |
|---|-------------|-------------|-------------|
| <b>Current Ratio</b> (ratio of current assets to current liabilities) | 6.86:1      | 5.60:1      | 5.69:1      |

The Town's Current Ratio and cash liquidity continues to increase from 2019 of 2.89 to 5.69 to 1 in 2020 and remain relatively stable for 2021 at 5.6 :1 in 2021, to 6.86 to 1 in 2022 this measures the ability to pay off all short-term debts.

It is important to note that some of the short-term assets (cash) are restricted for the purpose of future capital replacement. Historically, the Town has relied on a substantial line of credit to meet current cash-flow obligations. Administration has made some significant strides again in 2021 and 2022 with management of the use of the line of credit, recommending a fully funded budget and cash-flow management measures. The line of credit was not in use at the end of 2022.

This ratio has been calculated in a manner consistent with past practice at the Town, which includes all cash assets including reserves and reserve funds held for use at a later date. Going forward Administration will revisit the calculation to exclude restricted cash that is not expected to be used within one year, which is expected to better reflect the Town's ability to meet current liability obligations (must be paid within one year).

The ratio is at an acceptable level and no corrective action is needed at this time.

**Taxes Receivable as a Percentage of Total Tax Revenue:** This ratio is used to determine how much of the Town's taxation revenue remains uncollected at year end. Uncollected tax revenues negatively affect the municipality's cash flow, though the negative impact is offset through application of interest and penalty charges on the tax arrears.

|  | <b>2022</b> | <b>2021</b> | <b>2020</b> |
|--|-------------|-------------|-------------|
| <b>Taxes Receivable as a Percentage of Total Tax Revenue</b> | 4.10%       | 4.81%       | 5.01%       |

The amount of taxes receivable, as a percentage of total tax revenue, has decreased from the prior year. This ratio is a key indicator for both the Ministry of Municipal Affairs and the Town's banking services provider.

Administration has worked for a number of years through collection efforts to reduce and maintain this number below 10%, as that target is viewed as favourable by the MMAH. This was achieved for the first time in 2017 with even greater results in 2019. However, in 2021 the taxes receivable balance was up by about \$400,000 over 2019, which reflects growth in the Town and related supplementary property tax billings including a December 2021 supplementary assessment roll. Another factor for 2021 was the impact of the pandemic emergency on the local economy, which appears that have resulted in balances remaining on account longer than in the prior year. As we move out of the pandemic restrictions we are seeing improvements in the % for 2022.

Under the Municipal Act (Section 373), municipalities are provided with the authority to register a tax arrears certificate against a property that is two years in arrears, which has contributed to the reduction of taxes receivable for the Town over the years. Administration will continue efforts to maintain an acceptable level of taxes receivable going forward, and the 4.1% ratio is well within the acceptable range; no corrective action is needed at this time.

**Total Accounts Receivable as a Percentage of Total Revenue:** This ratio reflects how much of the total revenue remains uncollected at year-end. Uncollected revenues negatively affect the municipality's cash flow.

|   | 2022   | 2021   | 2020   |
|---|--------|--------|--------|
| <b>Accounts Receivable as a Percentage of Total Revenue</b> | 12.61% | 10.55% | 11.46% |

The ratio reflects an increase the 2021 rate. the increase related to taxes receivable is discussed above.

Administration has continued to enhance collection efforts for water account arrears, including implementation of the Water and Wastewater Billing and Collections Policy adopted by Council in 2020 and working with Essex Power to introduce a timely collection process. These measures have had a positive impact, which has mitigated the effects of the Pandemic on Taxes Receivable; no corrective action is needed at this time.

**Total Accounts Receivable over Accounts Payable (use of operating cash flow):** This shows the amount of cash flow that the Town is financing at year end by comparing the amount of Accounts Receivable in relation Accounts Payable.

| <b>Accounts Receivables over Accounts Payable</b> | 2022          | 2021          | 2020        |
|---|---------------|---------------|-------------|
| Total Accounts Receivable                         | \$7,128,831   | \$6,389,311   | \$6,371,379 |
| Total Accounts Payable                            | \$9,051,072   | \$8,971,749   | \$6,387,237 |
| Source of Operating Cash Flow                     | \$(1,922,241) | \$(2,582,438) | \$(15,858)  |

Administration is continuing efforts to reduce accounts receivable and improve cash flow for the Town. Items such as local improvements and drainage works financed by the Town for residents over long periods of time place additional pressure on total accounts receivable and cash-flow, we expect there will be an increase in future years due to the size of drainage projects needed in future years.

In 2022 the increase in accounts receivable is the result of the timing of recoverable large construction invoices included in accounts payable at year end creating a timing difference. In addition, the timing of intercompany transfers due from Water and Waste Water increased the accounts receivable balance at year end. The result was favourable to the Town's cash flow and continues to show a positive trend. Administration will continue to review opportunities to reduce and improve cash flow going forward. For details of the sources and uses of Cash refer to the Consolidated Cash Flow from the Audited financial statements.

### **Financial Leverage Ratios**

**Total Long-term Debt to Long-term Assets:** is defined as the ratio of total long-term debt to total assets, expressed as a percentage, and can be interpreted as the proportion of the Town's assets that are financed by debt. The higher this ratio, the greater the Town's financial risk.

| <b>Long-term Debt to Long-term Assets (Cost)</b> | <b>2022</b>   | <b>2021</b>   | <b>2020</b>   |
|--|---------------|---------------|---------------|
| Total Long-term Debt                             | \$28,539,836  | \$30,857,062  | \$33,279,308  |
| Total Tangible Capital Assets (Cost)             | \$483,305,459 | \$471,914,604 | \$456,878,094 |
| Debt as a Percentage of Assets (Cost)            | 5.91%         | 6.54%         | 7.28%         |

2021 adjusted for prior year audit adjustment minimal % change

The above ratio indicates that 5.91% of the original asset cost (Cost) of the Town's total tangible capital assets is funded by debt.

| <b>Long-term Debt to Long-term Assets (NBV)</b> | <b>2021</b>   | <b>2020</b>   | <b>2020</b>   |
|---|---------------|---------------|---------------|
| Total Long-term Debt                            | \$28,539,836  | \$30,857,062  | \$33,279,308  |
| Total Tangible Capital Assets NBV*              | \$261,026,195 | \$259,662,878 | \$254,641,943 |
| Debt as a Percentage of Assets NBV*             | 10.93%        | 11.88%        | 13.07%        |

2021 adjusted for prior year audit adjustment minimal % change

\*NBV (Net Book Value): The net value of an asset that is equal to its original cost (its book value) minus accumulated amortization.

The above ratio indicates that of the Town's total tangible capital assets 10,93% of the net book value (depreciated value) of the assets is funded by debt.

The Town has seen improvement and reduction in both ratios, which reflects decreasing debt levels and increasing asset values, as legacy assets are replaced and new assets are added.

The trends for these ratios are positive and Administration will continue to review opportunities to enhance the Town's financial sustainability by reducing its reliance on long-term debt.

**Total Long-term Debt to Equity:** This ratio indicates what proportions of equity and debt the Town is using to finance its assets. A high ratio usually indicates a higher degree of business risk because the entity must meet principal and interest payments on its obligations.

| <b>Long-term Debt to Equity</b>             | <b>2022</b> | <b>2021</b> | <b>2020</b>   |
|---|-------------|-------------|---------------|
| Total Long-term Debt                        | 28,539,836  | 30,857,062  | \$33,279,308  |
| Accumulated Surplus (Equity)                | 256,580,887 | 245,764,274 | \$230,481,665 |
| Debt as a Percentage of Accumulated Surplus | 11.12%      | 12.56%      | 14.44%        |

2021 adjusted for prior year audit adjustment minimal % change

This Ratio reflects a positive trend as it indicates that the total debt has decreased as compared to the total Town equity position.

This positive trend is an indicator that the current funding models are improving the Town's financial stability; however, there is still work to be done. Administration will continue to review opportunities to further reduce the Town's reliance on long-term debt and to increase reserve and reserve fund balances to support asset management through a pay-as-you-go model.

### **Other Financial Management Considerations**

**Annual Repayment Limit (ARL):** is a long-term borrowing limit calculated based on 25% of certain annual revenues or receipts, less most ongoing annual long-term debt service costs (and similarly less most annual payments for other long-term financial obligations). The calculation of the Town's Annual Repayment Limit (ARL) is based on data contained in the Town's Financial Information Return (FIR), as submitted to the Ministry of Municipal Affairs.

The Debt and Financial Obligation Limits regulation places a limit on how much a municipality can commit to principal and interest payments relating to debt and financial obligations, without first obtaining approval from the Ontario Municipal Board.

| <b>Annual Repayment Limit</b>                      | <b>2022 (est.)</b> | <b>2021</b>  | <b>2020</b>  |
|--|--------------------|--------------|--------------|
| Total Revenue for ARL                              | \$43,000,000       | \$43,612,735 | \$43,671,327 |
| 25% of Revenue ( Debt Limit)<br>(maximum allowed)  | \$10,750,000       | \$10,903,184 | \$10,917,832 |
| Actual Principal and Interest<br>Payments          | \$3,614,000        | \$3,641,000  | \$3,648,372  |
| Additional Room                                    | \$7,109,000        | \$7,262,184  | \$ 7,269,460 |
| Percentage of Revenue applied<br>to Debt Repayment | 8.50%              | 8.30%        | 8.40%        |

At 8.50%, the Town is within the maximum ARL for debt service (25%) and is within the amounts approved in the Town's Loans and Borrowing Policy; no corrective action is required at this time. However, MMAH considers this a financial flexibility indicator and identifies 'low' risk as a factor of less than five (5) percent.

#### **Prior Year 2021 Financial Information Return**

The attached analysis of our Financial Information Return provided by the Ministry (Attachment A) indicates improvements across our Sustainability Indicators and our Flexibility Indicators for the period 2017 to 2021.

Debt Servicing Costs are relatively high in comparison to other municipalities in the Western Region, a result of utilizing debt in 2014 to address infrastructure deficits, and ongoing carrying cost of the Libro Centre. These debts will not be paid until 2034 & 2041 respectively. As the Town continues to utilize debt for large projects this number will continue to be at minimum, a moderate level of risk and could move to a high level of risk or the next few years.

Total Reserves and Discretionary Reserves Funds in comparison are substantially lower than other municipalities in the Western Region. This is also reflective of the debt servicing cost the lack of reserves will result in the use of debt to fund infrastructure projects. Although this risk is considered low, if the reserves are not built-up or replenished it will result in higher usage of debt and increase the risk associated with the Debt Servicing Costs.

Balancing debt and reserves will continue to be a challenge that Administration is attempting to mitigate with the 5-year capital budget tied to the Asset Management Plan.

#### **4. RISK ANALYSIS:**

Future financial risk exists if the Town does not continue to evaluate the operations by performing ratio analysis and benchmarking progress toward 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 debt, and increase reserve and reserve fund balances to support asset management through a pay-as-you-go model.

## **6. CONSULTATIONS:**

KPMG LLP audited financial statements were utilized with regard to this report.  
Financial Services Manager/Deputy Treasurer.  
Clerks

## **7. CONCLUSION:**

Positive trends in debt reduction and improved financial stability are being observed with the results of 2022. No significant corrective actions are recommended at this time; however, it is essential that a 'pay as you go' approach be supported with more robust reserves and reserve funds established to support funding and fiscal stability needs to continue well into the future. The presentation of the AMP on August 15, 2022, of the proposed financial strategy presented by the consultant (PSD Citywide) provides guidance on how to improve the position on funding of Town Infrastructure, ensuring that council's level of service expectations is balanced with funding. O.Reg 588/17 2025 requirements will support the long term planning needed by council to ensure future sustainability of the Town.

  
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Tracy Prince

**Director of Corporate Services/CFO**

## Report Approval Details

|                      |  |
|----------------------|--|
| Document Title:      | 2022 Year-End Financial Ratios and Indicators.docx |
| Attachments:         | - FITC22_Amherstburg T Appendix A (FI).pdf         |
| Final Approval Date: | Sep 11, 2023                                       |

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

**No Signature - Task assigned to Valerie Critchley was completed by assistant  
Melissa Osborne**

Valerie Critchley

A handwritten signature in black ink, appearing to read "Kevin Fox", with a long horizontal stroke extending to the left.

Kevin Fox