REPORT

REPORT TO: The Chair and Members of the Community and Corporate Affairs Committee

REPORT FROM: Dana Stanescu, Accounting Supervisor

DATE: January 31, 2020

REPORT NO.: CORPSERV-2020-0010

RE: Ministry of Municipal Affairs and Housing 2018 Financial Indicator Review

RECOMMENDATION:

THAT Report No. CORPSERV-2020-0010 dated January 31, 2020 regarding the Ministry of Municipal Affairs and Housing 2018 Financial Indicator Review be received as information.

BACKGROUND:

Each year, the Ministry of Municipal Affairs and Housing (Ministry) distributes a Financial Indicator Review, based on 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 2018 Financial Indicator Review is based on the information reported in the 2018 FIR, which was presented to the Community and Corporate Affairs Committee on July 8, 2019.

The Ministry has made three changes to the indicator calculations for 2018 and those indicators were re-named in order to make them easier to understand.

1. Net Financial Assets or Net Debt indicator changed to include Own Source Revenues which reflect only those revenues that municipalities have control over.
2. Debt Servicing Cost changed to remove Donated Tangible Capital Assets (TCAs) from Total Revenues, as Donated TCAs are not true revenues in the sense that there are no cash transactions associated with them, and they are not consistent year-over-year, therefore impacting the ability to make annual comparisons.

3. Annual Surplus/Deficit indicator has been updated to remove Donated TCAs and include only Own Source Revenues to maintain consistency with the other changes detailed above for other indicators.

Own Source Revenues include revenues from Property Taxes, User Fees and Service Charges (i.e. business licenses, parks and facilities rentals, recreation programs, fees for development agreements and applications, etc.).

The remaining 2018 published indicators are calculated in the same way as prior years.

In May 2009, the Public Sector Accounting Board (PSAB) released a Statement of Recommended Practice (SORP) that provided guidance on how public sector bodies should report on indicators of financial condition. Consistent with this, the Ministry has divided the indicators into sustainability and flexibility categories:

a. 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 increasing faster than its own purpose taxation and user fees, there is heightened risk around the maintenance of service levels.

b. 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. It provides insight into how a government manages its finances. Increases in current borrowing reduce future flexibility to respond to developing adverse economic circumstances. Similarly, increases in taxation, user fees and service charges, reduce the ability of a government to do this in the future as citizens and businesses have a limit to what they are willing to pay.

The Town has incorporated some of the relevant Financial Indicators into the Long Range Financial Plan and monitors compliance with these indicators prior to making financial decisions.

COMMENTS:

Appendix A lists the results of the seven indicators that the Ministry is measuring. The 2018 review also includes the previous four years from 2014 through 2017 for purposes of comparison. Additional notes on how each of the indicators is calculated and supplementary information is also included.

The Ministry assigns a risk factor to each of the indicators and rates results on a low, moderate or high risk category. The Town falls into the low risk category in all but one of the indicators. The "Debt Servicing Cost as a Percentage of Total Revenues (Less

Donated TCAs)" is categorized with a moderate level of risk and has been in the moderate risk category for the past few years.

Debt Servicing Cost as a % of Total Revenues (Less Donated TCAs)	Low: < 5% Mod: 5% to 10% High: >10%	2014	5.0%	3.4%	3.6%	MODERATE
		2015	5.9%	3.7%	3.4%	MODERATE
		2016	5.6%	3.4%	3.5%	MODERATE
		2017	5.9%	3.1%	3.4%	MODERATE
		2018	6.1%	3.0%	3.4%	MODERATE

The Long Range Financial Plan presented to Council in January 2019, does not anticipate this indicator to be in the low risk category until 2024 as shown in the extract below.

PROVINCIAL INDICATORS	2017	2017 Risk		2019	2022	2024	2028	2028 Risk
Total Reserves & Discretionary Reserve Funds as a % of Municipal Expenses	65.5%	Low	Keep above +20%	37.0%	36.6%	40.7%	41.6%	Low
Debt Servicing Cost as a % of Total Revenues	5.8%	Mod	Keep below +5%	5.6%	6.5%	4.6%	4.9%	Low

The following section reviews each of the 7 financial indicators in detail.

Sustainability Indicators

1. Total Taxes Receivable less Allowance for Uncollectibles as a % of Total Taxes Levied

This ratio is a measure of outstanding taxes receivable as a percentage of total taxes that are levied in the year. The Town has only 4.6% of taxes that are considered due and payable to the Town as at December 31, 2018. This ratio indicates that the Town is in a favourable position when compared to the other municipalities. The Ministry classifies this result as low risk and is indicative of tax payers paying their taxes in a timely manner.

The small increase of 0.6% in this ratio compared to the prior year is a direct result of larger supplementary taxes processed towards the end of 2018 ($850K) that were due for payment in January 2019, therefore inflating the taxes receivable balance. Supplementary taxes are processed as a result of periodic property reassessments conducted by MPAC, and added to the tax roll upon receipt of updated valuations.

2. Net Financial Assets or Net Debt as % of Own Source Revenues

Net Financial Assets or Net Debt is calculated by subtracting the Town's liabilities from its assets. The Town is in a net financial asset position, as the value of assets exceeds its liabilities. When the net financial asset value is divided by the sum of own source revenues for 2018 the Town's ratio is 124.8% and falls into the low risk category.

The ratio has improved over the past five years due to higher short-term investment balances. This is directly attributable to positive reserves resulting from the timing of receipt of debenture revenues, outgoing capital expenditures and repayment of outstanding debt.

3. **Total Reserves and Discretionary Reserve Funds as a % of Municipal Expenses**

   This indicator measures the balance in the Town's reserves to current operating expenses (including amortization), and is used to determine whether there are sufficient funds set aside to cover unplanned expenses.

   Total reserves are currently sitting at 67.7% of 2018 operating expenses indicating a low level of risk and a continued positive trend. For the current reporting year this is slightly higher than 2017 and remains higher than the municipal comparators. The positive trend for 2018 is due to a greater increase in reserves and discretionary reserve fund balances when compared to the increase in operating expenses.

4. **Cash Ratio (Total Cash and Cash Equivalents as a % of Current Liabilities)**

   Total cash on hand as at December 31, 2018 and the book value of the short-term investments with the Region are the numerators for this ratio. The denominator is driven by the Accounts Payable balance outstanding at year end, otherwise known as current liabilities. This is a measure of the Town's liquidity or the ability to pay out of cash the current invoices that are waiting to be paid.

   At the end of 2018, the Town was in a position to pay those outstanding invoices 5.25 times. Available cash on hand was $77.4M, an increase of $2.8M over 2017, while current liabilities remained steady at $14.7M over the previous year. These factors resulted in the higher ratio for 2018.

Flexibility Indicators

5. **Debt Servicing Cost as a % of Total Revenues (Less Donated TCAs)**

   This indicator measures the current portion of long-term debt which consists of principal and interest for the operating year and compares it with annual revenues less donated TCAs to determine how much of those revenues are being used to repay debt.

   In 2018, the Town used 6.1% of its annual operating revenues to cover debt costs, an increase over the prior year. This falls into the moderate risk category. Analysis of the indicator shows that the debt principal and interest charges increased year over year by 4% due to in-year adjustments of $323,000 relating to the early repayment of the Town's loan with the HDSB. This loan somewhat skews the results of this indicator. Operating revenues only increased by 2% over last year, thereby resulting in the elevated percentage for this indicator.

6. **Closing Amortization Balance as a % of Total Cost of Capital Assets (Asset Consumption Ratio)**

   This indicator measures the cost of accumulated amortization against the historical cost of the Town's assets. The ratio indicates that based on accounting useful life, 45.7% of the depreciable assets have been used. This is categorized with a low level of risk. The level has remained constant over the 5-year comparative period; however, it is on average higher than the comparator municipalities.

   It is important to consider that this ratio uses historical capital asset book value, not current replacement cost. Additionally, 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 involves collecting data on the condition of the assets. This information, combined with an optimal maintenance and replacement program, is used instead to determine when an asset should be replaced and is incorporated annually into the Town's budget process.

7. **Annual Surplus/(Deficit) as a % of Own Source Revenues**

   This indicator measures the ability of the Town to cover operational costs and have funds available for other purposes. In 2018, the ratio fell to 6.2% from 11.0% in the previous year. Although it still remains in the low risk category, it varies from the median and average results of the Town's comparators.

   The Town's 2018 annual surplus was significantly lower than in prior years and is the main driver for this indicator. Several factors have contributed to this change. Firstly, increased expenses from the capital budget are reducing the surplus, relating to costs that could not be capitalized as assets. Secondly, the 2018 results were impacted by the recording of a loss on disposal of assets from the fixed asset data cleansing project. Lastly, the 2018 results of the consolidated entity Halton Hills Community Energy Corporation were considerably lower than in prior years therefore impacting the amount of revenue that the Town could recognize.

RELATIONSHIP TO STRATEGIC PLAN:

The recommendations within this report support Council's strategic priority regarding financial sustainability:

Establish sustainable financing, asset management and master plans to acquire, operate, maintain, renew and replace infrastructure.

FINANCIAL IMPACT:

There is no financial impact directly related to this report.

CONSULTATION:

A detailed review of the Statement of Financial position by Finance staff was required to explain the reasons for movements in financial results over the 5-year comparative period.

PUBLIC ENGAGEMENT:

There has been no public engagement by the Town with respect to this report.

SUSTAINABILITY IMPLICATIONS:

The Town is committed to implementing our Community Sustainability Strategy, Imagine Halton Hills. Doing so will lead to a higher quality of life.

The recommendation outlined in this report is not applicable to the Strategy’s implementation.

COMMUNICATIONS:

There is no communications impact associated with this report.

CONCLUSION:

The Financial Indicator Review is an important but not a complete 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 financial indicators, the Town falls into the low challenge category in all but one of the indicators. The “Debt Servicing Cost as a Percentage of Total Revenues (Less Donated TCAs)” is categorized at a moderate level of risk, and is being carefully managed through the LRFP.

Reviewed and Approved by,

Moya Jane Leighton, Town Treasurer and Director of Accounting

Jane Diamanti, Commissioner of Corporate Services

Brent Marshall, Chief Administrative Officer