TOWN OF HALTON HILLS

REPORT

REPORT TO:	Mayor Bonnette and Members of Council
REPORT FROM:	Jinsun Kim, Manager of Financial Reporting
DATE:	March 1, 2021
REPORT NO.:	CORPSERV-2021-0002
RE:	Ministry of Municipal Affairs and Housing 2019 Financial Indicator Review

RECOMMENDATION:

THAT Report No. CORPSERV-2021-0002 dated March 1, 2021 regarding the Ministry of Municipal Affairs and Housing 2019 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 2019 Financial Indicator Review is based on the information reported in the 2019 FIR, which was presented to Council on July 6, 2020 (CORPSERV-2020-0020). The Ministry of Municipal Affairs and Housing provided Town staff with the 2019 financial indicator template on December 29th, 2020 (Appendix A).

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 (LRFP) 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 2019 review also includes the previous four years from 2015 through 2018 for purposes of comparison. Additional notes on how each of the indicators is calculated and associated 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 two of the indicators.

As shown below, 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 this category for the past few years. The 2019 Long Range Financial Plan anticipated this indicator to remain in the moderate risk category until 2024.

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

Low: < 5% Mod: 5% to 10% High: >10%	2015	5.9%	3.7%	3.4%	MODERATE
	2016	5.6%	3.4%	3.5%	MODERATE
	2017	5.9%	3.1%	3.3%	MODERATE
	2018	6.1%	2.9%	3.3%	MODERATE
	2019	6.4%	2.7%	3.3%	MODERATE

The "Annual Surplus/(deficit) as a % of Own Source Revenues" is also categorized with a moderate level of risk, which is a change from the low risk category reported in previous years. This change is mainly due to a one-time restatement of Development Charges (DC) revenues in the 2019 Financial Statements and was explained to Council in Report No. CORPSERV-2020-0023 (re: Reserves, Discretionary Reserve Funds, Obligatory Reserve Funds and Trust Funds as at December 31, 2019). This indicator is expected to return to pre-2019 levels in subsequent years as it is considered to be non-recurring in nature.

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

Low: > -1% Mod: -1% to -30% High: < -30%	2015	21.6%	7.6%	9.7%	LOW
	2016	24.7%	9.9%	10.4%	LOW
	2017	11.0%	13.2%	14.1%	LOW
	2018	6.1%	9.3%	11.2%	LOW
	2019	-9.5%	12.3%	14.4%	MODERATE

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 4.2% of taxes that are considered due and payable to the Town as at December 31, 2019. The Ministry classifies this result as low risk and is indicative of tax-payers paying their taxes in a timely manner. The small decrease of 0.4% compared to the prior year's ratio (4.6%) is due mainly to a better collection rate in 2019. The Town's ratio continues to compare favorably to the municipal comparators.

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 2019 the Town's ratio is 117.3% and falls into the low risk category. The ratio has seen a favourable trend between 2015 and 2018 due to higher short-term investment balances, however it did decline slightly in 2019. This decline of 5.7% between 2018 and 2019 is primarily attributable to an increase in the deferred revenue balance related to the one-time DC adjustment as explained in Council report No. CORPSERV-2020-0023.

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

This indicator compares 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.

In 2019, total reserves over operating expenses are sitting at 72.4% indicating a low level of risk. The 2019 ratio is higher than the prior year's ratio (67.7%) due primarily to a greater increase in reserves relative to the increase in operating expenses. This indicator has been increasing over the past five years and continues to compare favorably to the municipal comparators.

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

This indicator measures the Town's ability to pay out of cash the current invoices that are waiting to be paid (i.e. liquidity), by comparing total cash on hand to current liabilities. Total cash includes cash on hand at the bank and the short-term investments held with the Region whereas current liabilities include the accounts payable balance outstanding at the end of the calendar year.

At the end of 2019, the Town was in a position to pay the outstanding invoices 6.12 times using cash on hand and short-term investments and continues to fall into the low risk category. The increase in this ratio compared to the prior year's ratio (5.25) is due mainly to the increased total cash compared to the relatively stable current liabilities. This indicator has also been increasing over the past five years and continues to compare favorably to the municipal comparators.

Flexibility Indicators

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

This indicator compares the annual long-term debt re-payments (consisting of principal and interest) with annual revenues to determine what percentage of those revenues are being used to repay debt.

In 2019, the Town used 6.4% of its annual operating revenues to cover debt repayments. This falls into the moderate risk category and continues to trend slightly higher than municipal comparators. 6.4% is an increase of 0.3% over 2018 and this year over year upward trend is directly attributable to the one-time life to date reduction in the recognition of DC revenues in the 2019 statement of operations.

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 2019 ratio indicates that based on accounting useful life, 47.3% of the depreciable assets have been used. This indicator falls into a low risk category however, it has been gradually increasing over the past five years and is higher than the municipal comparators, indicating that the Town's assets could be aging faster than they are being replaced.

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) (Less Donated TCAs) 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 2019, the ratio fell to -9.5% from 6.1% in the previous year and moved from the low risk category into the moderate risk category.

The notable ratio decline is mainly attributable to:

- A one-time restatement made to the recognition of DC revenues under the direction of the Ministry of Municipal Affairs and Housing as explained in Council Report No: (CORPSERV-2020-0023);
- Recognition of a higher value of donated capital assets which are excluded from revenues as part of this calculation ($4.1M in 2019 vs. $297K in 2018); and
- Decreased equity income from HHCEC as the Town monetizes the Hydro Promissory Note as planned.

Although the Town's revenues and the resulting annual surplus will continue to be affected by the declining HHCEC equity income due to the planned monetization of the promissory note over the next six years, the indicator is expected to closely return to pre-2019 levels as the one-time restatement of DC revenues is a non-recurring item.

RELATIONSHIP TO STRATEGIC PLAN:

The recommendations within this report supports Council's strategic priority regarding fiscal and corporate management.

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 risk category in all but two of the indicators. The “Debt Servicing Cost as a Percentage of Total Revenues (Less Donated TCAs)” and “Annual Surplus/(Deficit) as a % of Own Source Revenues” are categorized at a moderate level of risk based on the reasons discussed above. The indicators will continue to be carefully monitored and managed through the LRFP.

Reviewed and Approved by,

Moya Jane Leighton, Town Treasurer and Director of Accounting

Laura Lancaster, Acting Commissioner of Corporate Services

Chris Mills, Acting Chief Administrative Officer