FISCAL HEALTH REPORT

October 2019

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TownofStMarys.com

Table of Contents

INTRODUCTION AND OPINION

Firstly, it must be mentioned that municipalities are charged with providing services for the betterment of the community; most of those services are not revenue-neutral.

There is no magic formula in determining the fiscal health of a municipality. While municipalities in Ontario are all regulated the same (with the exception of Toronto), each municipality is unique in what services it provides, how it provides those services, and how it funds those services. There are some guidelines established by the Ministry of Municipal Affairs and Housing; as well, there are traditional financial tools and ratios that help identify the fiscal health of a municipality.

This was not meant to be an exhaustive review, but rather it was a high level exercise to provide Council with a general opinion based on my experience within the municipal finance sector.

My financial review included an analysis of the following financial components:

- Financial Ratios/Indicators
- Assets – namely tangible capital assets
- Liabilities – concentrating on long term debt
- Accumulated Surplus – reserves/reserve funds
- Revenue
- Expenditures
- Risk and Challenges

In my review, I utilized the following sources of information:

- St. Marys Audited Financial Statements
- St. Marys Financial Information Return (FIR)– 2009 – 2010
- Ministry of Municipal Affairs FIR database
- BMA Management Consulting 2018 Municipal Study

Based on my review, the Town of St. Marys has a positive fiscal health. The Town has a strong balance sheet with solid cash flows and healthy reserves. The cost of long term debt is slightly higher and less flexible than desired, but the capacity has been properly built into the annual budget. The infrastructure deficit is a long term challenge that, properly managed, can be sustainably reduced. There is a caveat; the Town is small, with finite funding sources and municipalities face many risks and challenges moving forward. One or two negative financial challenges or decisions could greatly impact the fiscal health of the Municipality moving forward. The key to remaining financially sustainable will be continued strategic and long term decision making, while remaining flexible enough to deal with future financial hurdles.

AUDITED FINANCIAL STATEMENTS

Audited Financial Statements are a key resource in determining the fiscal health of any organization.

Municipal audited financial statements must also contain the municipality's share of all local boards and entities owned and/or controlled by the municipality – this is referred to as consolidation. For the Town of St. Marys, the consolidation will include the following:

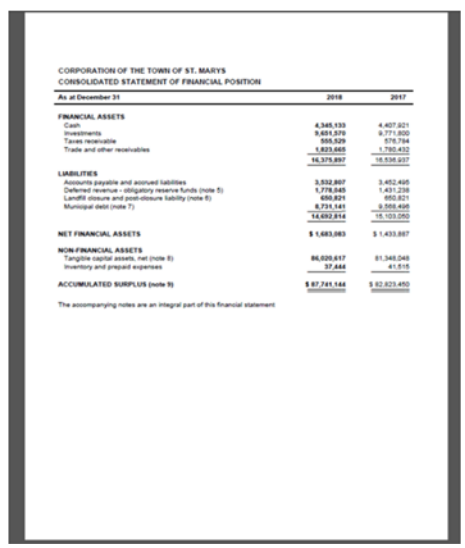
- **St. Marys Public Library Board**
- **St. Marys Police Services Board**
- **St. Marys BIA (Business Improvement Area)**
- **Perth District Health Unit (Proportionately Shared – 2018 – 8.9%)**
- **Spruce Lodge (Proportionately Shared – 2018 – 7.2%)**

Each municipality in Ontario must also file a Financial Information Return (FIR) with the Ministry of Municipal Affairs and Housing (MMAH) each year based on the audited financial statements.

Under the *Municipal Act* of Ontario section 294.1 a municipality shall, for each fiscal year (January 1 – December 31), prepare annual financial statements for the municipality in accordance with generally accepted accounting principles for local governments as recommended, from time by time, by the Public Sector Accounting Board (PSAB).

Further section 296 (1) states a municipality shall appoint an auditor licensed under the *Public Account Act*, 2004 who is responsible for annually auditing the accounts and transactions of the municipality and its local boards and expressing an opinion on the financial statements of these bodies based on the audit.

The financial statements are presented to Council annually by the Town's auditor. Any discrepancies, misstatements, or risks identified are raised during the annual presentation. There have been no notable risks or misstatements raised over the last 3 years.



CORPORATION OF THE TOWN OF ST. MARYS
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31	2018	2017
FINANCIAL ASSETS		
Cash	4,345,133	4,407,921
Investments	9,651,570	9,771,800
Taxes receivable	555,529	576,784
Trade and other receivables	1,823,665	1,780,432
	16,375,897	16,536,937
LIABILITIES		
Accounts payable and accrued liabilities	3,532,807	3,462,495
Deferred revenue - obligatory reserve funds (note 5)	1,778,045	1,431,238
Landfill closure and post-closure liability (note 6)	650,821	650,821
Municipal debt (note 7)	8,731,141	9,568,496
	14,692,814	15,103,050
NET FINANCIAL ASSETS	$ 1,683,083	$ 1,433,887
NON-FINANCIAL ASSETS		
Tangible capital assets, net (note 8)	86,020,617	81,348,048
Inventory and prepaid expenses	37,444	41,515
ACCUMULATED SURPLUS (note 9)	$ 87,741,144	$ 82,823,450

The accompanying notes are an integral part of this financial statement

Town of St. Marys Financial Statements - online

FINANCIAL RATIOS

Analysis of financial statements is performed using industry standard financial ratios - The Ministry of Municipal Affairs and Housing has developed two sets of meaningful municipal financial ratios/indicators; along with recommended risk levels:

Sustainability Ratios/Indicators:

These financial indicators measure a municipality's ability to manage its current service and financial commitments.

TOWN OF ST. MARYS - SUSTAINABILITY INDICATORS							
Ratio/Indicator	**2013**	**2014**	**2015**	**2016**	**2017**	**2017 South Average**	**Risk Level**
Total Taxes Receivable less Allowance for Uncollectible as a % of Total Taxes Levied	4.2%	4.9%	5.0%	4.6%	4.1%	6.4%	Low: < 10% Mod: 10% to 15% High: > 15%
Net Financial Assets or Net Debt as % of Own Purpose Taxation, User Fees and Service Charges	-21.3%	-3.7%	9.5%	10.4%	7.0%	-12.4%	Low: > -50% Mod: -50% to -100% High: < -100%
Total Reserves & Discretionary Reserve Funds as a % of Municipal Expenses	47.6%	52.4%	60.4%	60.8%	56.3%	39.6%	Low: > 20% Mod: 10% to 20% High: < 10%
Cash Ratio (Total Cash and Cash Equivalents as a % of Current Liabilities)	2.55	3.24	3.56	1.97	1.28	1.78	Low: > 0.5:1 Mod: 0.5:1 to 0.25:1 High: < 0.25:1

All of the sustainability indicators for the Town are within the low risk guidelines identified by the Ministry of Municipal Affairs and Housing. Furthermore, all are healthier than the South Ontario averages, with the exception of the Cash Ratio whereby the Town slipped below the average in 2017, but remains well within the low risk level. The Town of St. Marys' 5 year trend from 2013 to 2017 does not indicate any financial concerns.

Flexibility Ratios/Indicators:

These ratios/indicators provide insight on how the municipality manages its finances and its ability to respond to adverse financial constraints.

TOWN OF ST. MARYS - FLEXIBILITY INDICATORS							
Ratio/Indicator	**2013**	**2014**	**2015**	**2016**	**2017**	**2017 South Average**	**Risk Level**
Debt Servicing Cost as a % of Total Revenues	5.9%	6.1%	5.4%	5.4%	5.1%	4.7%	Low: < 5% **Mod: 5% to 10%** High: > 10%
Closing Amortization Balance as a % of Total Cost of Capital Assets (Asset Consumption Ratio)	28.9%	30.0%	31.4%	31.7%	31.9%	41.5%	**Low: < 50%** Mod: 50% to 75% High: > 75%
Annual Surplus/(Deficit) as a % of Own Purpose Taxation, User Fees and Service Charges (Operating Surplus Ratio)	11.6%	9.8%	16.5%	16.8%	21.5%	17.6%	**Low: > -1%** Mod: - 1% to - 30% High: < -30%

The Town's Debt Servicing cost is slightly above the Southern Ontario average and is within the moderate risk level. The 5 year trend has been positive. The Asset Consumption Ratio and Operating Surplus Ratio are both very positive and well within low risk tolerances.

RECOMMENDATION 1: Annually provide Council a report outlining the latest Town financial Ratios/Indicators and 5 year trend

CAPITAL ASSETS, LONG TERM DEBT AND RESERVES

The two most frequently asked questions by Councils and Senior Staff when determining the fiscal health of a municipality are:

- Do we have adequate reserves?
- Do we have too much debt?

These questions are difficult to answer and it really depends on various factors; most important being the current state of your capital assets. This very simple analogy of a person's life provides some insights:

- Young Adult: Lots of debt (mortgage, loans, etc.)
No/very little savings
- Middle Aged: Moderate debt
Moderate savings
- Older Adult: No/very little debt
Adequate savings

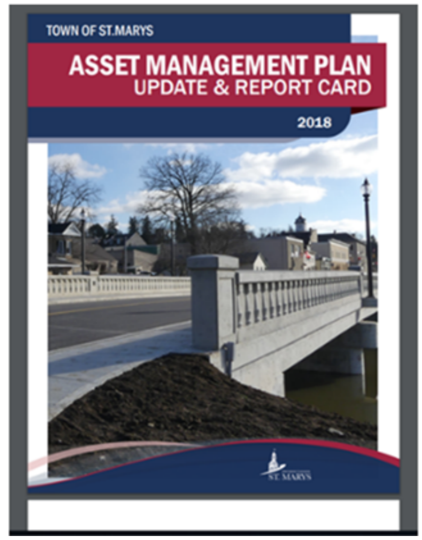
This analogy helps theorize the concept between assets, debt, and reserves; however, its gets a little more complicated. First, a municipal serves a diverse community with different needs and in different phases of their lives. Secondly, a municipality lives forever (at least that is the goal) and have many different services/assets at varying stages in their lifecycle.

As such, reserves and debt cannot be evaluated individually. Furthermore, the state and condition of the assets must be taken into account; as well as an understanding of what assets are needed in the future to provide services to the public. The Town's asset management plan (AMP) is an important part of the equation.

Assets and Asset Management

The 2018 balance sheet identifies the Town's net tangible capital assets at just over $86 Million. Further broken down, our assets have a total historical cost of $123 Million with accumulated amortization (depreciation) of $37 Million; providing the net amount of $86 Million. Financial statements take a historical view of the costs, amortized (depreciated) over the estimated life of the asset.

The asset management plan (AMP) attempts to identify where each of the Town's over 10,000 assets are within their lifecycle and what the cost of renewing or replacing those assets will be in the future. While it is difficult to determine what services the Town may provide in 50 – 100 years and how changes in innovation and technology might impact services and costs, the AMP provides a high level guide to good decision making and fiscal management.



Town of St. Marys AMP - online

Financial Statements			Asset Management Plan		
Total Asset Costs	$	123,695,000	Total Replacement Cost	$	219,000,000
Annual Amortization	$	2,301,000	Annual Investment Required	$	4,425,524
Funding Deficit	$	-	Funding Deficit	$	(1,086,848)

Based on 2018 AMP Update - Includes tax funded and rate funded assets

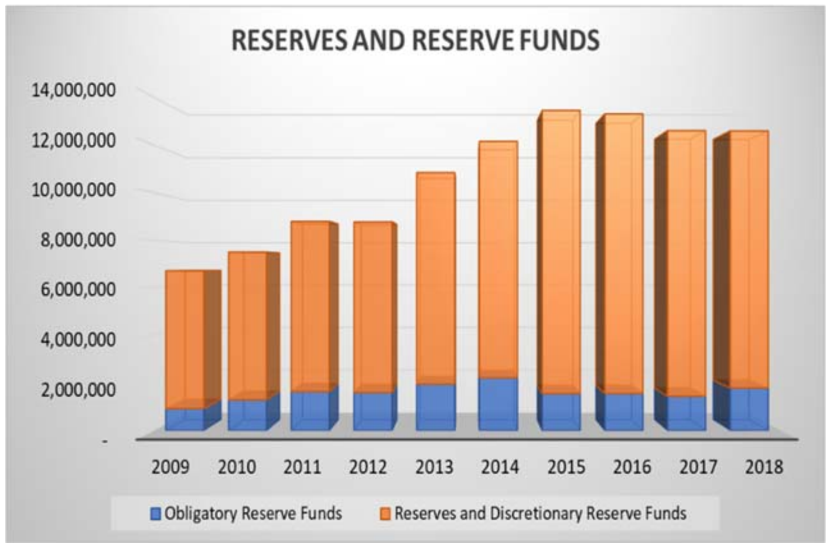
As shown above, the AMP shows a much different picture than the financial statements. Managing the AMP funding deficit can be achieved in several ways:

- **Reviewing the Town's service levels and assets required to provide those services**
- **Implementing operational objectives to obtain more efficient lifecycle costs**
- **Increase funding sources – grants, reserves (tax), user fees, and debt**

Reserves and Reserve Funds

The Town sets money aside annually to fund future expenses and liabilities, these funds are placed into reserves or reserve funds:

Reserves: A reserve is surplus funds Council allocates to specific future needs. Examples of reserves the Town has are working capital, equipment replacement, general capital and industrial lands.



Discretionary Reserve Funds: These are similar to reserves, set up at the discretion of Council, but the funds are held in a separate account and earn investment income. Examples of discretionary reserve funds are PUC fund and fire equipment.

Obligatory Reserve Funds: These funds are set aside for a distinct purpose mandated by legislation or funding agreements. These are also held in separate accounts and earn investment income. Some examples are federal gas tax, cemetery perpetual care, and development charges.

The Town has been able to increase its reserves substantially over the last number of years. Much of the increase in reserves and reserve funds is dedicated to fund future capital – asset management.

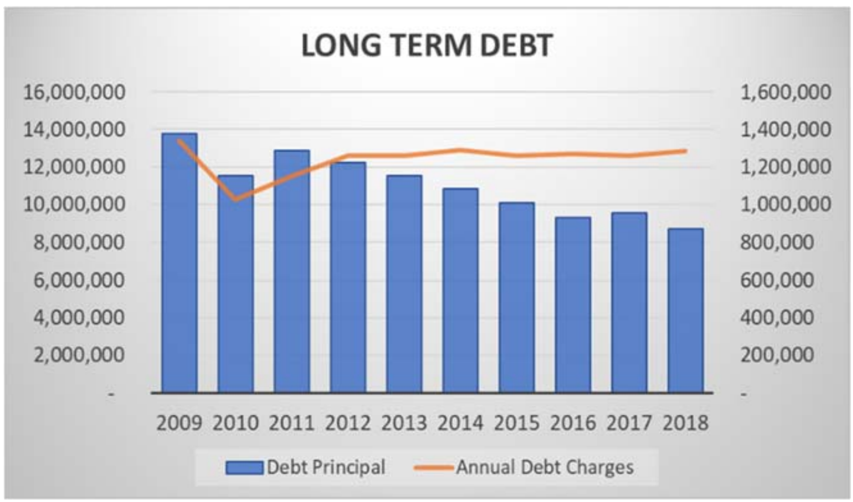
RECOMMENDATION 2: Create a reserve policy to guide reserve and reserve fund objectives and goals

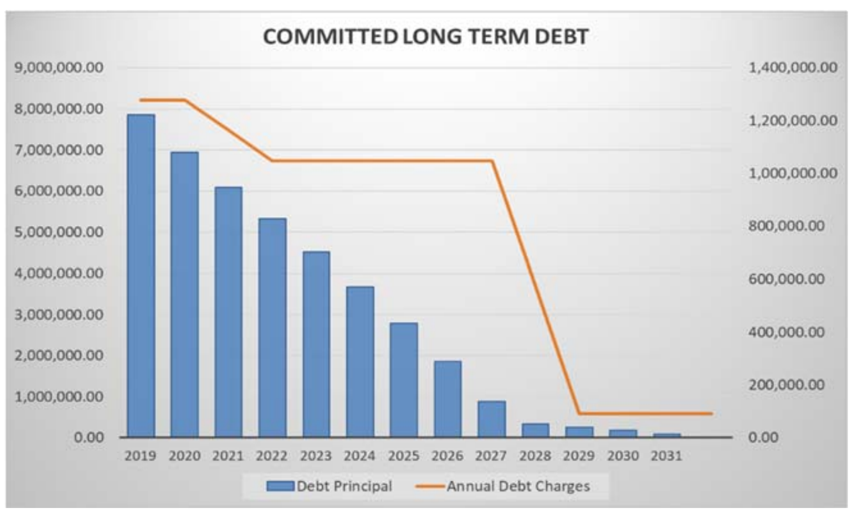
Debt

Debt is an important financing tool to fund capital infrastructure and helps match the cost to the users benefiting from that asset. Having said that, there is an added annual interest expense and the municipality is committed to a liability for a long period of time. As such, debt needs to be used wisely and in conjunction with long term strategies to ensure flexibility is available when required. At the end of 2018, St. Marys' long term debt was approximately $8.7 Million with annual principal and interest charges of $1.28 Million. The Municipal Act sets an Annual Repayment Limit (ARL) setting a cap on annual debt payments a municipality can make. The 2018 ARL for the Town of St. Marys is $5.268 Million – the Town is well within the ministry guideline for annual debt payments.

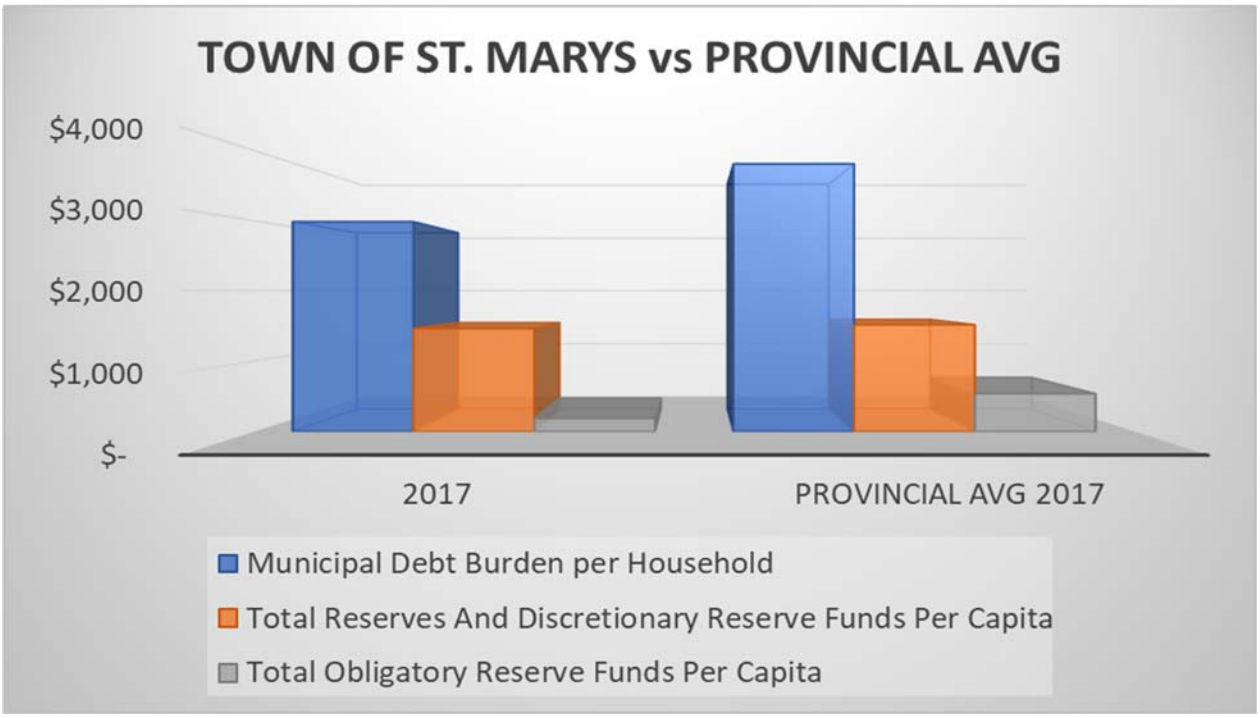
Over the last 10 years, the Town annual debt charges have remained fairly stable and outstanding debt principal has consistently decreased.

Moving forward, the Town has a consistent annual debt charge commitment until 2027, with a large drop thereafter. The challenge this presents is the current debt is not flexible and does not provide any opportunity to take on more capital debt without an increase to the tax or rate levy. On the other hand, from a long term perspective, the Town will have an opportunity to leverage the decrease in 2028 to manage the infrastructure shortfall previous discussed.





While every municipality is unique, comparisons can help determine if any concerns need to be analyzed. The chart below compares the 2017 debt burden per household and reserves per capita between the Town and the provincial average of all 444 Ontario municipalities.



The obligatory reserve funds per capita are lower than the provincial average, which is due to higher development charges reserve funds in many larger centres. Otherwise, comparatively speaking, the Town's debt and reserve levels are encouraging from a comparative perspective.

Back to the original questions posed:

- Do we have adequate reserves?
- Do we have too much debt?

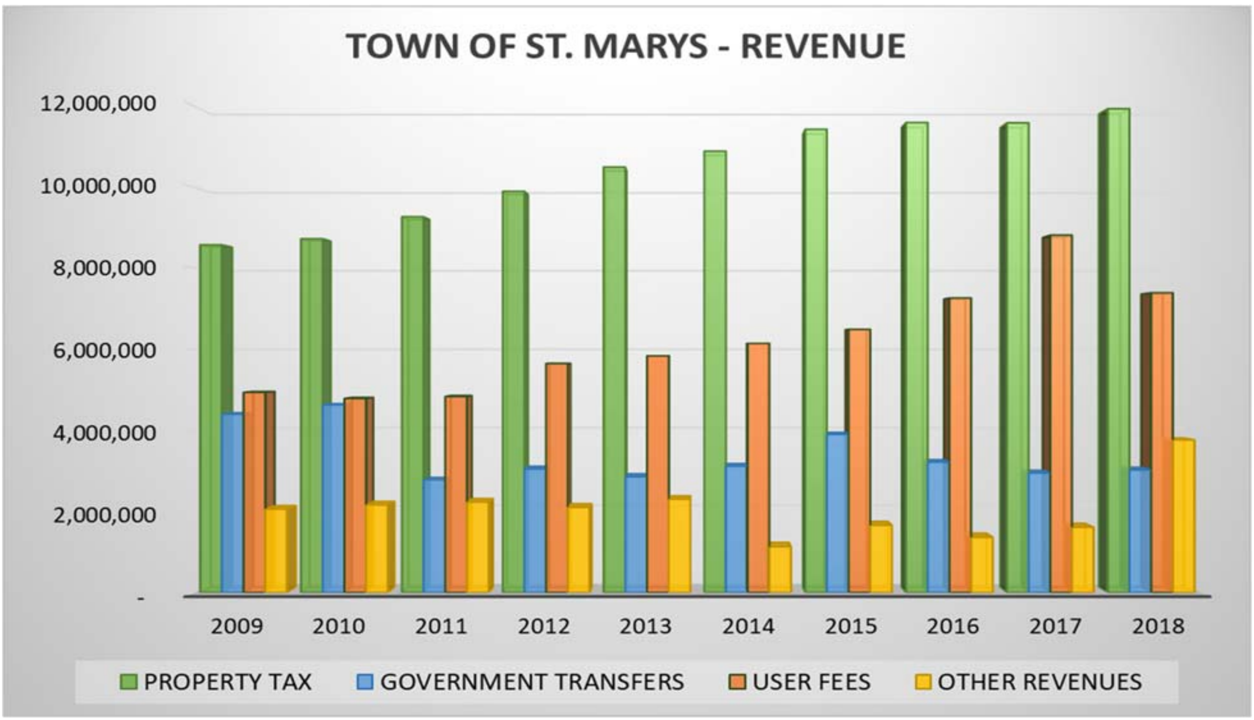
The Town is trending in the right direction and certainly has taken proper steps to build its reserves, manage its debt, and understand its infrastructure deficit. More work will be needed in 2020 to better quantify asset management needs and create a long term financial strategy.

RECOMMENDATION 3: Finance work closely with the Asset Management /Engineering Specialist to develop an Asset Management action plan and long term financial strategy

REVENUE

The Town of St. Marys, like most Ontario municipalities, has four main sources of revenue to fund the public services it provides:

- Property Tax
- User Fees
- Government Transfers
- Other Revenue (Licenses, Fines/Penalties, Donations, etc.)



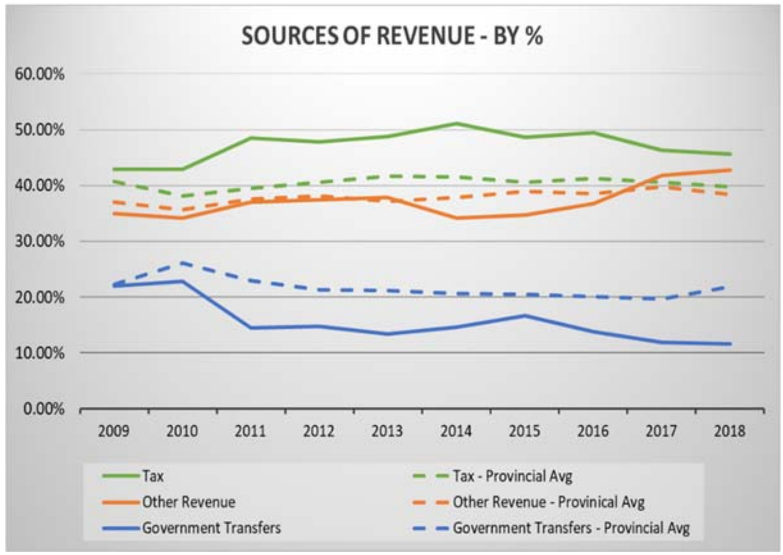
Property taxes and user fees have gradually increased since 2009. Note the spike in user fees in 2017 was due to the contribution of assets from the assumption of a sub-division. Other revenues have fluctuated but remain stable – again, a spike in 2018 was due to a developer contribution of assumed assets. Conversely, government transfers have decreased since 2009, and accounted for approximately 12% of the Town's revenue in 2018 (22% in 2009).

While the reduction in government transfers creates a funding challenge; a lower reliance on unknown government transfers makes the Town more self-sustaining. From a financial analysis perspective, the Town's ability to enhance its financial sustainability amidst lower government transfers provides better level of assurance and confidence of remaining fiscally viable moving forward.

Comparing St. Marys to the rest of the province does show some interesting trends:

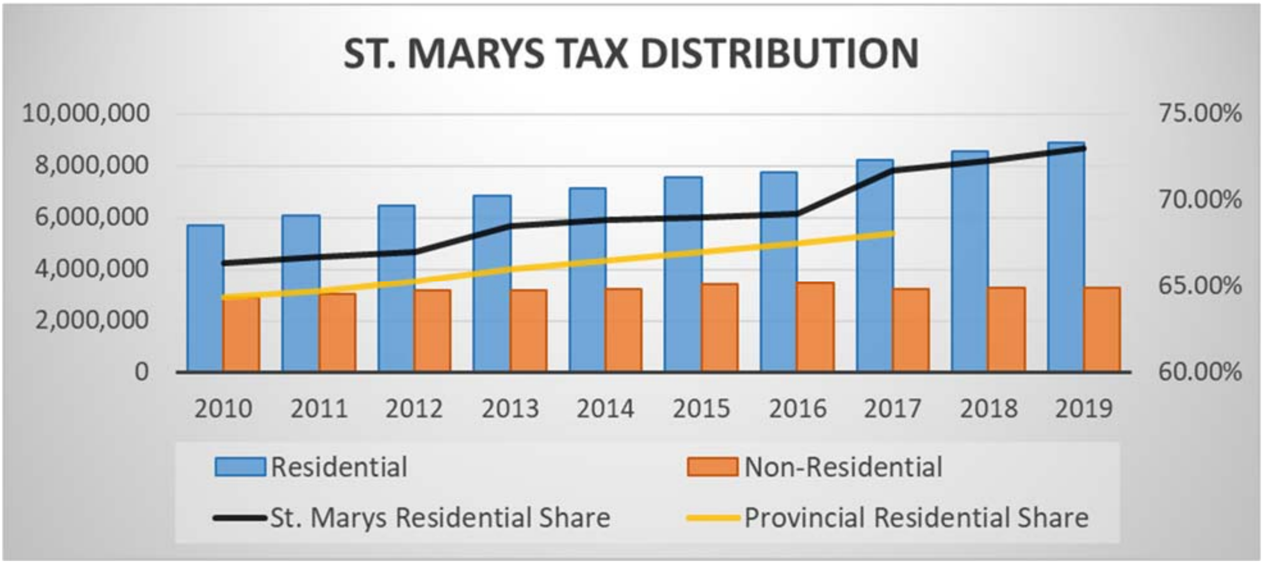
Property Tax – Over the past 10 years, St. Marys' reliance on property taxes has slightly increased from approximately 43% to just over 45%. Provincially, the trend has remained fairly stable at 40%.

Other Revenue (includes user fees) – The Town's reliance on other revenue and user fees has increased from 35% in 2009 to almost 43% in 2018. The contribution of developer assets in 2017 and 2018 impact the results – other revenue and user fees are closer to 39% of our revenues when removing developer contributions. Again, provincially the trend has remained fairly static over 10 years at approximately 38%.



Government Transfers – Certainly 2009/2010 saw a high volume of infrastructure funding for municipalities. Since that time, the Town's reliance on government transfers has substantially declined from 26% to 11.5%. Interestingly, provincially there was a dip, but government transfers in 2018 still accounted for 22% of total revenues – very close to the 2009 levels.

A Closer look at Property Taxes:



The above table demonstrates that as the Town's reliance on property tax has grown, it has mostly been funded by the residential sector. There are three contributing factors to this:

- Majority of growth in St. Marys has been within the Residential class
- Across Ontario, commercial and industrial assessments have decreased – St. Marys in no exception
- St. Marys has lowered its Multi-Residential tax ratio from approximately 1.8 to 1.1 creating a shift onto the Residential class

In 2019, 73% of the municipal property taxes were from the residential class, in comparison to 66% in 2009. This trend is consistent with what is occurring across the province; albeit, St. Marys' residential property tax reliance has consistently trended 2 – 3% above the provincial average.

RECOMMENDATION 4: The Treasurer provide a report to Council in 2020 to analyze the targeted residential property tax share and strategies to mitigate erosion of the non-residential tax base

If the residential class in St. Marys is paying a greater burden; are residential property taxes in St. Marys higher than average? Comparing property taxes is not as easy as simply comparing property tax rates. Property taxes are made up of 3 main components: municipal property tax rate, education property tax rate, and asesssment – and within those components different variables exist. As such, comparing only tax rates does not provide an accurate comparision.

The proper data is not publicly available to perform a true analysis, however, the BMA study does provide some insights for the 119 municipalities that participated in their 2018 study.

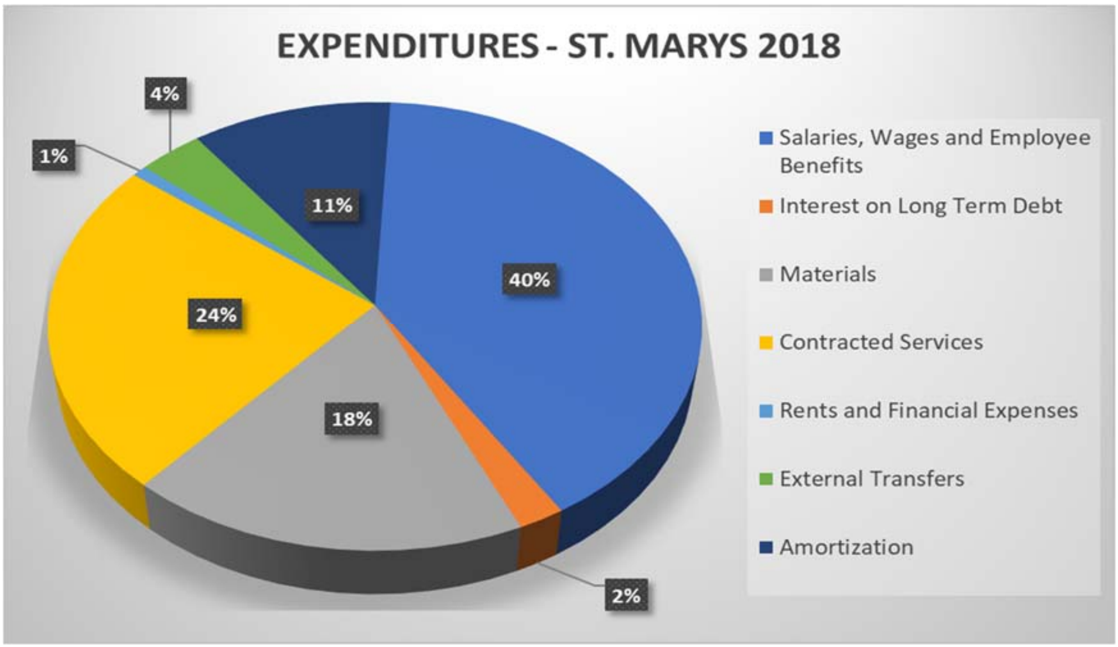
2018 BMA Study Review			
	Municipal Service	St. Marys	BMA Study Average
1	Net Municipal Levy per Capita	$1,510	$1,527
2	Average Property Tax - Residential Detached Bungalow	$3,277	$3,397
3	Residential Property Taxes as a % of Household Income	4.1%	3.8%
4	Total Municipal Burden (Taxes & Water/Wastewater) as a % of Household Income	5.2%	4.9%

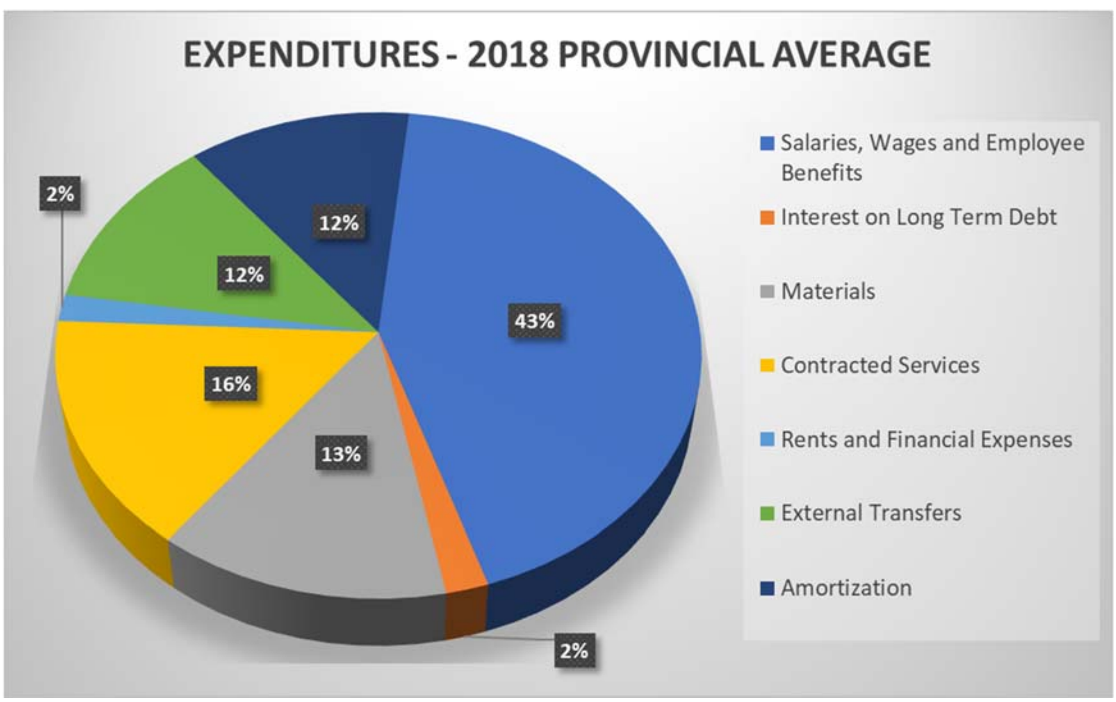
In all four highlighted study areas, St. Marys ranks in the middle tier. Slightly higher than average when household income is considered.

RECOMMENDATION 5: The Treasurer work with SMT and Council to identify a group of comparable municipalities and prepare an annual comparison of property taxes

EXPENDITURES

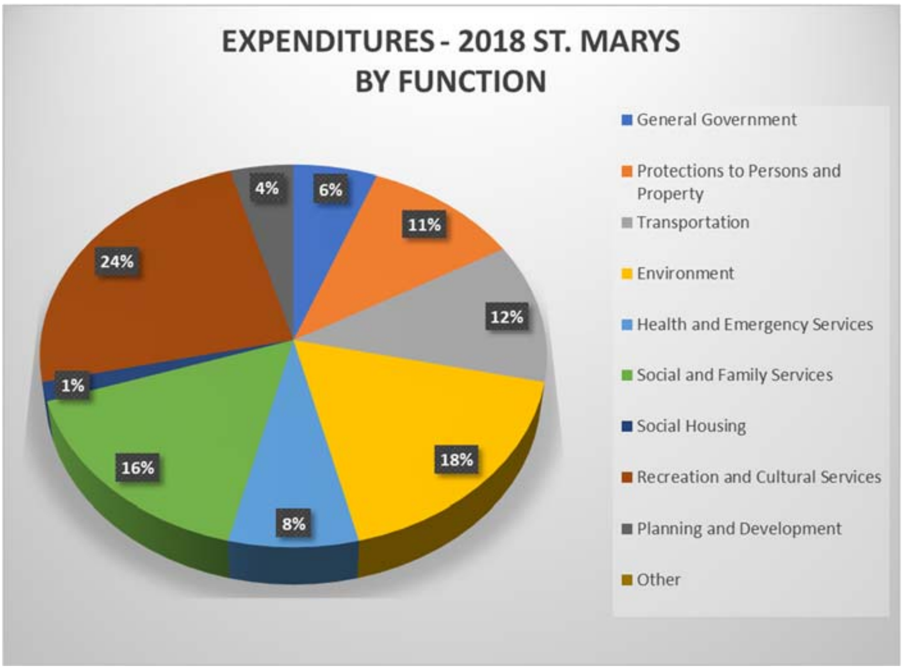
Municipalities are responsible for providing a wide range of services to its citizens. As such, employee costs make up the bulk of the annual operating expenses.

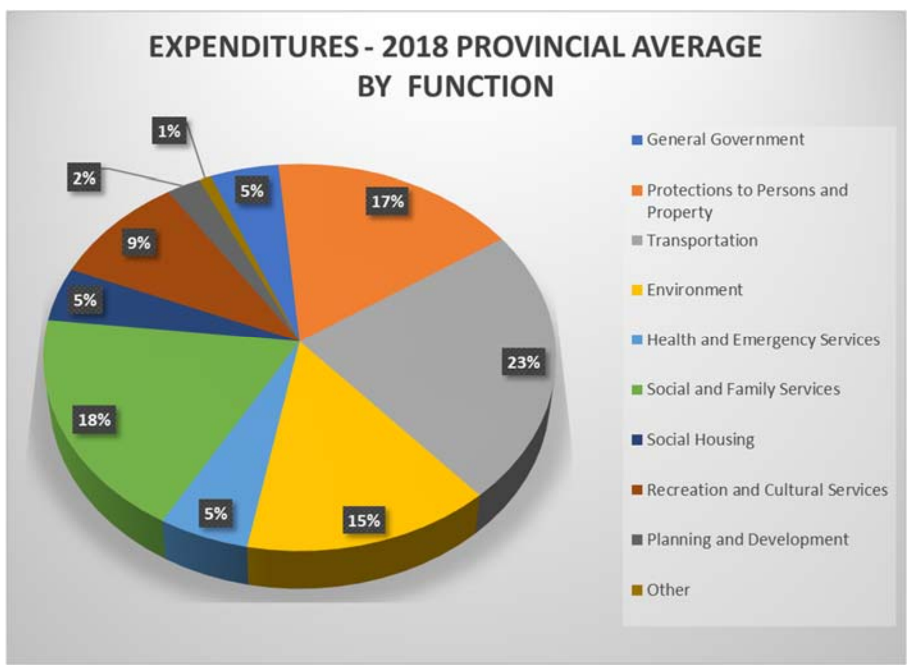




The proportionate share of the expenditures in St. Marys is fairly aligned with those across Ontario. A few differences exist in external transfers, contracted services, and materials. It appears, in comparison to the average, St. Marys is performing more work internally versus using external agencies. A portion of the variance is also related to some municipal FIR data not being completed using the proportionate consolidation approach.

Expenditures were also reviewed by function (program):





St. Marys does spend, on average, more on Recreation and Cultural services.

There are two areas where St. Marys spends much less than the average. Protection to Persons and Property – operating as a volunteer fire service is the main factor influencing this difference. Transportation – a big portion of the variance in this area is cost of conventional transit services not offered in St. Marys.

Comparing expenditures between municipalities is a difficult task as there are many variables: size of municipality, service level, geography, internal procedures, allocation of administrative costs, etc. However, targeting benchmarking can be an important tool to ensure costs are in line with the industry and ensure best practices are being applied. Currently, the Town does not perform any benchmarking with the exception of participating in the annual BMA study; a study conducted by BMA Management Consultants Inc. using FIR data to compare municipalities that subscribe for the program. Below is a comparison of costs per capita between St. Marys and the BMA study average (119 municipalities):

Areas highlighted in green indicate where St. Marys cost per capita is lower than the study average, red indicates a higher cost per capita.

These are very high level comparisons and a deeper analysis would be required to determine the rationale for differences and if any opportunities exist. In some comparison, the Town of St. Marys simply has a higher level of service; for example, most municipalities do not operate a municipal childcare centre.

2018 BMA Study Review			
		Cost Per Capita	
	Municipal Service	St. Marys	BMA Study Average
1	General Government	$149	$118
2	Fire	$42	$88
3	Police	$143	$196
4	Roadways Paved	$181	$192
5	Streetlighting	$19	$13
6	Waste Collection	-$5	$9
7	Waste Disposal	-$10	$35
8	Child Care	$33	$16
9	Parks	$59	$45
10	Recreation Programming	$64	$21
11	Library	$68	$35
12	Museum	$19	$15
13	Planning	$35	$18
14	Building Permit & Inspection	$24	$15

RECOMMENDATION 6: The Treasurer work with SMT and Council to identify a group of comparable municipalities and prepare an expenditure benchmarking policy

RISKS & CHALLENGES

Being a small single tier municipality brings many benefits and opportunities to St. Marys making it the great community it is today. The municipality is in a solid financial position, but there are many factors that can have an immediate and negative impact on its financial well being. Below are some risks/challenges that have been identified through this review:

Property Tax Risk:

- The Town of St. Marys relies on property taxes for 45% of its revenue. Of the approximate 3,200 properties with the Town, 7 properties account for 17% of the total property taxes collected. Two of those properties are currently under assessment appeal.
- Non-residential property taxes are stagnant, increasing the burden onto the residential class.

Government Transfers:

- Government transfers have been decreasing and expected to continue to drop. While the municipality may sustain funding cuts operationally, it will be difficult to manage the infrastructure deficit without assistance from our government partners.

Infrastructure Deficit:

- The infrastructure deficit is the most critical risk facing municipalities today. The addition of new assets must be done strategically to ensure not to further increase the deficit.

Municipal Challenges:

- Rising housing costs across the country are increasing the cost of living. This has impact on the affordability of property taxes and other municipal fees and charges.

Manage Growth:

- While growth can be very positive; we must be prudent on how growth will impact the municipal cost of providing services moving forward. While the theory of growth pays for growth exists, due to current regulations, this is not necessarily always the case.

SUMMARY OF RECOMMENDATIONS

RECOMMENDATION 1	**Annually provide Council a report outlining the latest Town financial ratios/indicator s and 5 year trend**
RECOMMENDATION 2	**Create a reserve policy to guide reserve and reserve fund objectives and goals**
RECOMMENDATION 3	**Finance work closely with the Asset Management/Engineering Specialist to develop an Asset Management action plan and long term financial strategy**
RECOMMENDATION 4	**The Treasurer provide a report to Council in 2020 to analyze the targeted residential property tax share and strategies to mitigate erosion of the non-residential tax base**
RECOMMENDATION 5	**The Treasurer work with SMT and Council to identify a group of comparable municipalities and prepare an annual comparison of property taxes**
RECOMMENDATION 6	**The Treasurer work with SMT and Council to identify a group of comparable municipalities and prepare an expenditure benchmarking policy**