
Subject: Review of Niagara Region Financial Condition

Report to: Corporate Services Committee

Report date: Wednesday, March 10, 2021

Recommendations

1. That the Review of Niagara Regional Financial Condition **BE RECEIVED** for information.

Key Facts

- The purpose of this report is to respond to a Council inquiry at Budget Review Committee of the Whole on January 14, 2021 to provide a review of Niagara Regions financial condition.
- Staff have accumulated in this report financial indicators that are routinely referred to throughout the year when providing Council financial strategy and planning reports. This report also includes in Appendix 1 an indicator description, an evaluation of the indicator and policy references with opportunities for influencing the indicator provided in the body of the report.
- Sources for financial indicators are the Ministry of Municipal Affairs and Housing (MMAH), BMA Consulting Group, Standard & Poor's (S&P) Global Ratings and KPMG Service Sustainability Review.
- Indicators have been grouped using three categories: Financial Sustainability, Financial Flexibility and Financial Vulnerability.

Financial Considerations

There are no financial considerations for this report; however this report highlights the financial indicators that are utilized by staff when developing financial strategy and planning reports to Council.

Analysis

Regional staff rely on a number of external sources for financial indicators. These are used to assess the financial condition of the Region and complete comparisons to our peers where relevant. Each external source provides an evaluation of Niagara's performance indicator that is relevant for their use. However in Appendix 1, staff have

evaluated Niagara's indicators considering the entirety of the multiple sources and applied a consistent rating scheme to all using a scale of negative, neutral and positive.

Source of Financial Indicators Information

- **Ministry of Municipal Affairs and Housing (MMAH) – Financial Indicator Review** (Appendix 2). This is completed annually by MMAH, the 2020 review uses 2019 Financial Information Return (FIR) data. The FIR is the data collection tool used by MMAH to collect financial and statistical information on municipalities. It is populated each year by the Region and all of Ontario municipalities. Niagara Region is compared to the “South – Upper Tier- Regions” grouping which is comprised of Durham, Halton, Niagara, Peel, Waterloo, York, Muskoka and Oxford County. The median outcome of the review was used for the Regions evaluation purposes.
- **BMA Consulting – 2020 Municipal Study Executive Summary** (Appendix 3). The Region participates each year in the BMA consulting municipal study, which identifies key financial and economic indicators that are used to evaluate a municipality's financial condition. These indicators are compared to survey respondents in Ontario; there were 110 municipalities that participated in the 2020 study which leverages 2019 FIR information as well as 2020 taxation information. It should be noted that in some cases where the indicator for Niagara utilized local area municipality information, the BMA study uses a simple average for its calculations when considering Niagara's result where a weighted average may be more appropriate in some cases however for the sake of comparability the BMA info has been utilized in its published form.
- **Standard & Poor's (S&P) Global Ratings – Criteria used to determine credit ratings** (Appendix 4). S&P Global Ratings reviews multiple factors to determine the credit rating it applies. Most relevant to the matter of financial condition are Financial Management, Budgetary Performance, Liquidity and Debt Burden. These indicators were most recently assessed by S&P using the 2019 FIR data and on a scale of 1 to 5, with 1 being very strong, and 5 being very weak. The overall credit rating for 2020 was re-affirmed on October 13, 2020 at AA, with a stable outlook.
- **KPMG's Service Sustainability Review – Indicators of Financial Performance** (Appendix 5). KPMG was engaged to conduct a Service Sustainability Review which was completed in August 2020. The KPMG Final Report included the evaluation of the Region's financial condition as

recommended by the Public Sector Accounting Board (PSAB), and evaluated Niagara against Durham, Halton and Waterloo as upper tier comparisons.

Financial Indicator Summary:

The Public Sector Accounting Board establishes the accounting standards for public sector organizations which includes municipal governments. They recommend that the factors of sustainability, flexibility and vulnerability are considered when reporting on indicators of financial condition therefore the Region's financial indicators have been grouped using these categories.

Financial Sustainability: The degree to which the Region can maintain its existing financial obligations both in respect to services and its financial commitments without inappropriately increasing its debt or tax burden relative to the economy in which it operates.

Financial Flexibility: The Region's ability to change its available sources of funding (debt, taxes, user fees) to meet financial obligations.

Financial Vulnerability: The extent to which the Region is dependent on sources of revenue, predominantly grants from senior levels of government, over which it has no discretion or control.

In addition to the categorization and rating of the financial indicators in Appendix 1, staff have provided references to policies that apply to and guide the performance of the indicator. For those indicators where performance has been assessed as negative, the Action Plan items below present opportunities to improve the measures.

- Reserve measures -
 - Rating: Total reserves and discretionary reserve funds as a percentage of municipal expenses and total reserves and reserve funds per household are assessed as negative;
 - Risk: Lower level of reserves is indicative of limited ability to deal with cost increases or revenue losses, which would require the Region to issue debt or increase taxation and user fees.
 - Communication to Council: Reserve uses and balances are communicated to Council both with the annual budget process, during the year in the three quarterly financial updates and the annual financial report.

- Action Plan:
 - Support contributions to capital reserves as per the Capital Financing Strategy in order to support the approved asset management plan for infrastructure renewal and growth.
 - Support the uses for operating reserves as defined in the Reserve and Reserve Fund policy for one-time items in the budget or for extraordinary expenses outside of the budget process in accordance with the Budget Control By-law rather than funding on-going services or property tax increases which impact financial sustainability of services and create downward pressure on reserves balances.
 - Support the year-end transfer report recommended uses of the surplus to fund reserves which are made in accordance with the Reserve and Reserve Fund Policy.
- Tax Burden measures -
 - Rating: Residential, Multi-Residential, Commercial and Industrial relative property taxes, and property taxes as a percentage of household income are assessed as negative;
 - Risk: Higher taxes may be indicative of a higher service standard in Niagara but affordability could impact Niagara's competitiveness relative to neighbouring municipalities.
 - Communication to Council: These are communicated to Council each year with the presentation of the annual tax policy review, which identifies the impacts that policy decisions have on shifting of taxes between property classes and the potential for advancement of Regional strategic objectives.
 - Action Plan:
 - Consider the impacts that tax policy changes have on the residential taxpayers that comprise 73% of Regional taxation.
 - Consider recommendations of KPMG Service Sustainability Plan regarding opportunities for cost reduction in discretionary spending or alternative service models.
 - Endorse the mandate of the CAO Working Group and support opportunities identified to explore and collaborate on service areas of mutual interest to achieve administrative and/or operational efficiencies and cost savings in partnership with lower tier municipalities.

- Capital grants measures -
 - Rating: Capital grants as a percentage of total capital expenditures are assessed negative;
 - Risk: Necessary capital investment/renewal may be too reliant on funding from other levels of government because the Region hasn't established a sustainable capital financing plan.
 - Communication to Council: The annual capital budget identifies the external (provincial and federal) grants that are associated with each project being proposed.
 - Action Plan:
 - Support the Capital Financing Policy that only confirmed funding from other levels of government be included in the capital budget and forecast and that projects relying on this funding proceed only with this confirmation.
 - Continue with advocacy for sustainable and predictable capital funding sources from the Federal and Provincial government and for review of services funded from the property tax base such that funding can be made available from the property tax base for much needed local infrastructure.

Other indicators that have been assessed as positive or neutral are summarized below also with opportunities for actions to improve:

- Debt measures –
 - Rating: Debt burden, net debt as a percentage of own source revenue, debt servicing costs as a percentage of total revenues and total long-term debt per household assessed as neutral;
 - Risk: Debt financing of capital inclusive of interest costs is at a higher cost than reserve financing of capital, which impacts operating budgets and potential affordability. In addition, debt strategies may affect the credit rating which has a direct impact on the Region's cost of borrowing for capital projects.
 - Communication to Council: Debt information is reported to Council with approval of the capital budget, in year when seeking approval to acquire approved debentures, in the three quarterly financial updates and the annual financial report.

- Action Plan:
 - Support reserving the use of debt financing for growth related projects in accordance with the Capital Financing Strategy.
 - Support operating budget increases to capital reserve contributions to ensure reserves are available to fund infrastructure renewal in accordance with the Capital Financing Strategy.
- Capital investment measures -
 - Rating: Closing amortization balance as a percentage of total cost of capital assets, and capital additions as a percentage of amortization expenses are assessed as neutral;
 - Risk: Inability to make investments in aging infrastructure in accordance with the asset management plan, may impact integrity, functionality and service delivery of assets, and higher maintenance costs.
 - Communication to Council: While these measures are not reported individually to Council the level of recommended, required and backlog of capital investment and average annual rate of investment required to support the Asset Management Plan is reported annually with the capital budget deliberations.
 - Action Plan:
 - Support the Development Charge By-law principle of “growth pays for growth” so that tax dollars are available to invest in aging assets renewal in accordance with the Asset Management Plan and the Capital Financing Policy.
 - Support operating budget increases to capital reserve contributions to ensure reserves are available to fund infrastructure renewal in accordance with the Capital Financing Strategy.
- Credit rating measures –
 - Rating: Financial management, budgetary performance and liquidity are assessed as positive;
 - Risk: Lack of compliance with approved financial policies and by-laws could negatively impact the credit rating.
 - Communication to Council: Each year S&P undertakes a credit rating review of Niagara Regions financial position and forecast, this information is shared via an annual press release and used in preparation of all budget material.
 - Action Plan:

- Support actions and recommendations during budget deliberations and in year in accordance with approved policies and by-laws.

As noted above there are policies, guidelines and by-laws that address each of the financial indicators. All indicators will continue to be monitored, in particular those that are negatively ranked. Staff will also continue to advise Council in accordance with the established policies, inform Council of actions that may be contrary to the policies, and when actions could negatively affect the financial condition of the Region.

Alternatives Reviewed

N/A.

Relationship to Council Strategic Priorities

This supports the responsible growth and infrastructure planning and sustainable and engagement government strategic priorities.

Other Pertinent Reports

CSD 21 – 2017	Asset Management Plan
CSD 20 - 2019	Asset Management Policy
CSD 65 – 2019	Budget Planning By-law (No.2020-84)
CSD 13 - 2017	Budget Control By-law (No.2017-63)
CSD 51 – 2019	Capital Financing Policy
CSD 11 – 2017	Development Charge By-law (No.2017-68)
CSD 39 - 2018	Financial Reporting and Forecasting Policy
CSD 12 - 2019	Procurement By-law (No.2016-02)
CSD 48 - 2014	Reserve and Reserve Funds Policy

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Appendices

Appendix 1	Financial Indicators Summary
Appendix 2	Ministry of Municipal Affairs and Housing (MMAH) Financial Indicator Review
Appendix 3	BMA Consulting – Municipal Study 2020: Executive Summary
Appendix 4	S&P Global Ratings 2020
Appendix 5	KPMG – Region of Niagara Service Sustainability Review 2020