**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 theses 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 |

| | |
|---|---|
| **Prepared by:**<br>Carrie Sportel, CPA, CA<br>Supervisor, Corporate Budgets<br>Corporate Services | **Recommended by:**<br>Todd Harrison, CPA, CMA<br>Commissioner/Treasurer<br>Corporate Services |

**Submitted by:**
Ron Tripp, P.Eng.
Acting, Chief Administrative Officer

*This report was prepared in consultation with Margaret Murphy, Associate Director Budget Planning and Strategy, and reviewed by Helen Chamberlain, Director Financial Management & Planning/Deputy Treasurer.*

## Appendices

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|---|---|
| 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 |

# Appendix 1 – Financial Indicators Table

Sustainability Indicators:

| Indicator | Definition | Source | Result | Comparator | Performance | Policy/Bylaw Reference |
|---|---|---|---|---|---|---|
| Net financial Assets or Net Debt as % of Own Source Revenue | Indicates how much property tax and user fee revenue is servicing debt. | 2020 MMAH (Appendix 2) | -7.90% | 36.60% | Neutral | Capital Financing Policy |
| Total Reserves and Discretionary Reserve Funds as a % of Municipal Expenses | Indicates how much money is set aside for future needs and contingencies. | 2020 MMAH (Appendix 2) | 28.20% | 98.50% | Negative | Reserve & Reserve Fund Policy<br>Capital Financing Policy<br>Financial Reporting and Forecasting Policy |
| Financial Management | Assessment of Regions financial management framework and the policies that guide it. | 2020 S&P (Appendix 4) | 2 | N/A | Positive | Asset Management Policy<br>Budget Planning By-law<br>Capital Financing Policy<br>Financial Reporting and Forecasting Policy<br>Procurement Bylaw<br>Reserve and Reserve Funding Policy |
| Debt Burden | Debt and interest being paid relative to available resources. | 2020 S&P (Appendix 4) | 2 | N/A | Neutral | Capital Financing Policy |
| Total Reserves and Reserve Funds per Household | Funds set aside for future needs/contingencies. | 2020 KPMG: Region of Niagara Service Sustainability Review (Appendix 5) | 2nd Lowest | Highest: Halton<br>2nd Highest: Durham<br>Lowest: Waterloo | Negative | Reserve & Reserve Fund Policy<br>Financial Reporting and Forecasting Policy |

Sustainability Indicators continued:

| Indicator | Definition | Source | Result | Comparator | Performance | Policy/Bylaw Reference |
|---|---|---|---|---|---|---|
| Capital Additions as a percentage of Amortization Expenses | Extent to which it is sustaining its tangible capital assets. | 2020 KPMG: Region of Niagara Service Sustainability Review (Appendix 5) | Lowest | Highest: Waterloo2nd Highest: Halton2nd Lowest: Durham | Neutral | Asset Management Policy |

Flexibility Indicators:

| Indicator | Definition | Source | Result | Comparator | Performance | Policy/Bylaw Reference |
|---|---|---|---|---|---|---|
| Debt Servicing Cost as a % of Total Operating Revenue | Indicates how much of each dollar raised in revenue is spent on paying down existing debt. | 2020 MMAH (Appendix 2) | 4.90% | 4.90% | Positive | Capital Financing Policy |
| Closing Amortization Balance as a % of Total Cost of Capital Assets (Asset Consumption Ratio) | Indicates how much of the assets' life expectancy has been consumed. | 2020 MMAH (Appendix 2) | 44.70% | 34.90% | Neutral | Asset Management Policy |
| Annual Surplus / Deficit as a % of own source Revenues | Indicates the municipality's ability to cover its operational costs and have funds available for other purposes (e.g. reserves, debt repayment, etc.) | 2020 MMAH (Appendix 2) | 8.90% | 20.30% | Neutral | Budget Planning By-law |
| Property Taxes (Upper & Lower Tier) as a % of Household Income | Availability of gross household income to fund municipal services on a typical household. | 2020 BMA (Appendix 3) | 4.10% | 3.80% | Negative | Budget Planning By-law |
| Water/Wastewater + Taxes (Upper & Lower Tier) as a % of Household Income | Availability of gross household income to fund municipal services on a typical household. | 2020 BMA (Appendix 3) | 5.20% | 4.80% | Negative | Budget Planning By-law |

Flexibility Indicators continued:

| Indicator | Definition | Source | Result | Comparator | Performance | Policy/Bylaw Reference |
|---|---|---|---|---|---|---|
| 2020 Estimated Avg. Household Income | Provides average household income and a indication of potential affordability concerns. | 2020 BMA (Appendix 3) | $101,933 | $107,715 | Neutral | Budget Planning By-law |
| Residential Property Tax Burden | Property tax amount for 2-storey home | 2020 BMA (Appendix 3) | $4,981 | $4,714 | Negative | Annual Tax policy |
| Multi-Residential Property Tax Burden | Property tax amount for mid/high rise (per unit) | 2020 BMA (Appendix 3) | $1,797 | $1,802 | Neutral | Annual Tax policy |
| Commercial Property Tax Burden | Property tax amount for Neigh. Shopping (per Sq. Ft) | 2020 BMA (Appendix 3) | $4.16 | $3.88 | Negative | Annual Tax policy |
| Industrial Property Tax Burden | Property tax amount for industrial Std. (per sq. ft.) | 2020 BMA (Appendix 3) | $1.97 | $1.72 | Negative | Annual Tax policy |
| Budgetary Performance | Measures the level and volatility of the Region's expected cash flows in the year and overall performance compared to budget. | 2020 S&P (Appendix 4) | 2 | N/A | Positive | Asset Management Policy<br>Budget Planning By-law<br>Capital Financing Policy<br>Financial Reporting and Forecasting Policy<br>Procurement Bylaw<br>Reserve and Reserve Funding Policy |

Flexibility Indicators continued:

| Indicator | Definition | Source | Result | Comparator | Performance | Policy/Bylaw Reference |
|---|---|---|---|---|---|---|
| Liquidity | Measures the estimated free cash available to cover debt service costs for the year. | 2020 S&P (Appendix 4) | 1 | N/A | Positive | Asset Management Policy<br>Budget Planning By-law<br>Capital Financing Policy<br>Financial Reporting and Forecasting Policy<br>Reserve and Reserve Funding Policy |
| Debt Servicing Costs (Interest & Principal) as a Percentage of Total Revenues | Percentage of revenues used to fund long-term debt servicing costs. | 2020 KPMG: Region of Niagara Service Sustainability Review (Appendix 5) | 2nd Highest | Highest: Waterloo<br>2nd Lowest: Durham<br>Lowest: Halton | Neutral | Capital Financing Policy |
| Upper Tier Residential Taxes per Household | Ability to increase taxes to incrementally fund operating expenses and capital expenditures. | 2020 KPMG: Region of Niagara Service Sustainability Review (Appendix 5) | 2nd Lowest | Highest: Durham2nd Highest: Waterloo2nd Lowest: Halton | Positive | Budget Planning By-law |
| Total Long-Term Debt per Household | Debt load on a per household basis. | 2020 KPMG: Region of Niagara Service Sustainability Review (Appendix 5) | 2nd Highest | Highest: Waterloo<br>2nd Lowest: Halton<br>Lowest: Durham | Neutral | Capital Financing Policy |
| Upper Tier Residential Taxation as a % of Household Income | Calculates the percentage of total household income used to pay municipal property taxes. | 2020 KPMG: Region of Niagara Service Sustainability Review (Appendix 5) | 2nd Lowest | Highest: Durham<br>2nd Highest: Waterloo<br>Lowest: Halton | Positive | Budget Planning By-law |

Vulnerability Indicators:

| Indicator | Definition | Source | Result | Comparator | Performance | Policy/Bylaw Reference |
|---|---|---|---|---|---|---|
| Operating Grants as a % of Total Revenues | Degree of reliance on senior governments to fund operating expenses. Higher levels of grants decrease the share of the municipal operating costs funded by taxpayers and extent to which service levels can be impacted by a decrease in grants. | 2020 KPMG: Region of Niagara Service Sustainability Review (Appendix 5) | Highest | 2nd Highest: Waterloo & Durham<br>Lowest: Halton | Neutral | Budget Planning By-law |
| Capital Grants as a % of Total Capital Expenditures | Degree of reliance on senior governments to fund capital expenses. Higher levels of grants decrease the share of the municipal capital costs funded y taxpayers or debt and the extent to which capital investments can be impacted by a decrease in grants. | 2020 KPMG: Region of Niagara Service Sustainability Review (Appendix 5) | 2nd Highest | Highest: Durham<br>2nd Lowest: Waterloo<br>Lowest: Halton | Negative | Asset Management Plan<br>Capital Financing Policy |

# FINANCIAL INDICATOR REVIEW

(Based on the 2019 Financial Information Return)

## Niagara R

| | | | | | |
|---|---|---|---|---|---|
| Date Prepared: | 22-Oct-20 | 2019 Households: | 201,797 | Median Household Income (2016): | 66,137 |
| MSO Office: | Central | 2019 Population | 479,183 | Taxable Residential Assessment as a % of Total Taxable Assessment: | 72.5% |
| Prepared By: | Diane Ploss | 2020 MFCI Index | n/a | | |
| Tier: | UT | | | Own Purpose Taxation: | 374,060,800 |

## SUSTAINABILITY INDICATORS

| Indicator | Ranges | Year | Actuals | South - UT - Regions Median | South - UT - Regions Average | Level of Risk | Comments |
|---|---|---|---|---|---|---|---|
| Total Taxes Receivable less Allowance for Uncollectibles as a % of Total Taxes Levied | Low: < 10%<br>Mod: 10% to 15%<br>High: > 15% | 2015 | 0.0% | 0.0% | 0.0% | LOW | |
| | | 2016 | 0.0% | 0.0% | 0.0% | LOW | |
| | | 2017 | 0.0% | 0.0% | 0.0% | LOW | |
| | | 2018 | 0.0% | 0.0% | 0.0% | LOW | |
| | | 2019 | 0.0% | 0.0% | 0.0% | LOW | |
| Net Financial Assets or Net Debt as % of Own Source Revenues | Low: > -50%<br>Mod: -50% to -100%<br>High: < -100% | 2015 | -11.9% | -4.1% | 15.7% | LOW | |
| | | 2016 | -17.1% | 7.7% | 20.5% | LOW | |
| | | 2017 | -14.2% | 18.3% | 28.4% | LOW | |
| | | 2018 | -6.7% | 30.3% | 42.0% | LOW | |
| | | 2019 | -7.9% | 36.6% | 50.0% | LOW | |
| Total Reserves and Discretionary Reserve Funds as a % of Municipal Expenses | Low: > 20%<br>Mod: 10% to 20%<br>High: < 10% | 2015 | 34.0% | 87.2% | 81.0% | LOW | |
| | | 2016 | 32.4% | 89.3% | 85.3% | LOW | |
| | | 2017 | 32.3% | 93.2% | 87.5% | LOW | |
| | | 2018 | 32.5% | 94.4% | 91.8% | LOW | |
| | | 2019 | 28.2% | 98.5% | 96.2% | LOW | |
| Cash Ratio (Total Cash and Cash Equivalents as a % of Current Liabilities) | Low: > 0.5:1<br>Mod: 0.5:1 to 0.25:1<br>High: < 0.25:1 | 2015 | 1.26:1 | 0.96:1 | 1.59:1 | LOW | |
| | | 2016 | 0.82:1 | 0.78:1 | 1.43:1 | LOW | |
| | | 2017 | 1.18:1 | 0.75:1 | 1.38:1 | LOW | |
| | | 2018 | 0.94:1 | 0.84:1 | 1.63:1 | LOW | |
| | | 2019 | 1.05:1 | 1.34:1 | 1.98:1 | LOW | |

## FLEXIBILITY INDICATORS

| Indicator | Ranges | Year | Actuals | Median | Average | Level of Risk | Comments |
|---|---|---|---|---|---|---|---|
| Debt Servicing Cost as a % of Total Revenues (Less Donated TCAs) | Low: < 5%<br>Mod: 5% to 10%<br>High: >10% | 2015 | 4.2% | 5.2% | 5.1% | LOW | |
| | | 2016 | 4.3% | 4.7% | 5.3% | LOW | |
| | | 2017 | 4.6% | 4.6% | 6.0% | LOW | |
| | | 2018 | 4.2% | 4.3% | 4.3% | LOW | |
| | | 2019 | 4.9% | 4.9% | 4.6% | LOW | |
| Closing Amortization Balance as a % of Total Cost of Capital Assets (Asset Consumption Ratio) | Low: < 50%<br>Mod: 50% to 75%<br>High: > 75% | 2015 | 43.2% | 34.1% | 34.7% | LOW | |
| | | 2016 | 41.6% | 34.5% | 35.0% | LOW | |
| | | 2017 | 42.5% | 34.2% | 34.7% | LOW | |
| | | 2018 | 43.9% | 34.6% | 35.6% | LOW | |
| | | 2019 | 44.7% | 34.9% | 36.1% | LOW | |
| Annual Surplus / (Deficit) (Less Donated TCAs) as a % of Own Source Revenues | Low: > -1%<br>Mod: -1% to -30%<br>High: < -30% | 2015 | 15.0% | 23.4% | 28.5% | LOW | |
| | | 2016 | 12.4% | 22.8% | 26.9% | LOW | |
| | | 2017 | 7.8% | 25.9% | 23.6% | LOW | |
| | | 2018 | 11.1% | 23.6% | 25.1% | LOW | |
| | | 2019 | 8.9% | 20.3% | 21.2% | LOW | |

*The data and information contained in this document is for informational purposes only. It is not an opinion about a municipality and is not intended to be used on its own - it should be used in conjunction with other financial information and resources available. It may be used, for example, to support a variety of strategic and policy discussions.*

# FINANCIAL INDICATOR REVIEW

(Based on the 2019 Financial Information Return)

## Niagara R

| | | | | | |
|---|---|---|---|---|---|
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| MSO Office: | Central | 2019 Population | 479,183 | Taxable Residential Assessment as a % of Total Taxable Assessment: | 72.5% |
| Prepared By: | Diane Ploss | 2020 MFCI Index | n/a | | |
| Tier: | UT | | | Own Purpose Taxation: | 374,060,800 |

# FOLLOW-UP REVIEW AND COMMENTS

**MSO has no concerns about the financial health of this municipality**

# NOTES

*Financial Information Returns ("FIRs") are a standard set of year-end reports submitted by municipalities to the Province which capture certain financial information. On an annual basis, Ministry staff prepare certain financial indicators for each municipality, based on the information contained in the FIRs. It is important to remember that these financial indicators provide a snapshot at a particular moment in time and should not be considered in isolation, but supported with other relevant information sources. In keeping with our Financial Information Return review process and follow-up, Ministry staff may routinely contact and discuss this information with municipal officials.*

### Supplementary Indicators of Sustainability and Flexibility

The following is a summary, adapted from the Chartered Professional Accountants of Canada Statement of Recommended Practice (SORP) 4.

- A government (including a municipality) may choose to report supplementary information on financial condition, to expand on and help explain the government's financial statements.
- Supplementary assessment of a government's financial condition needs to consider the elements of sustainability and flexibility.
- Sustainability in this context may be seen as the degree to which a municipality can maintain its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others without inappropriately increasing the debt or tax burden relative to the economy within which it operates.
- Sustainability is an important element to include in an assessment of financial condition because it may help to describe a government's ability to manage its financial and service commitments and debt burden. It may also help to describe the impact that the level of debt could have on service provision.
- Flexibility is the degree to which a government can change its debt or tax level on the economy within which it operates to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others.
- Flexibility provides insights into how a government manages its finances. Increasing taxation or user fees may reduce a municipality's flexibility to respond when adverse circumstances develop if the municipality approaches the limit that citizens and businesses are willing to bear.

  A municipality may temporarily use current borrowing, subject to the requirements set out in the Municipal Act to meet expenses and certain other amounts required in the year, until taxes are collected and other revenues are received. Municipal current borrowing cannot be carried over the long term or converted to long term borrowing except in very limited circumstances.
- For each element of financial condition, the report on indicators of financial condition should include municipality-specific indicators and municipality-related indicators. It may be useful to also include economy-wide information when discussing financial condition.

# FINANCIAL INDICATOR REVIEW

(Based on the 2019 Financial Information Return)

## Niagara R

| | | | | | |
|---|---|---|---|---|---|
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| Prepared By: | Diane Ploss | 2020 MFCI Index | n/a | | |
| Tier: | UT | | | Own Purpose Taxation: | 374,060,800 |

## *Additional Notes on what Financial Indicators may indicate:*

**Total Taxes Receivable less Allowance for Uncollectibles as a % of Total Taxes Levied** - *Shows how much of the taxes billed are not collected.*

**Net Financial Assets or Net Debt as % of Own Source Revenues** - *Indicates how much property tax and user fee revenue is servicing debt.*

**Reserves and Reserve Funds as a % of Municipal Expenses** - *Indicates how much money is set aside for future needs and contingencies.*

**Cash Ratio (Total Cash and Cash Equivalents as a % of Current Liabilities)** - *Indicates how much cash and liquid investments could be available to cover current obligations.*

**Debt Servicing Cost as a % of Total Revenues (Less Donated TCAs)** - *Indicates how much of each dollar raised in revenue is spent on paying down existing debt.*

**Closing Amortization Balance as a % or Total Cost of Capital Assets (Asset Consumption Ratio)** - *Indicates how much of the assets' life expectancy has been consumed.*

**Annual Surplus / (Deficit) (Less Donated TCAs) as a % of Own Source Revenues** - *Indicates the municipality's ability to cover its operational costs and have funds available for other purposes (e.g. reserves, debt repayment, etc.)*

**The Northern and Rural Municipal Fiscal Circumstances Index (MFCI)** *is used by the Ministry of Finance to calculate the "Northern and Rural Fiscal Circumstances Grant" aimed at northern as well as single and lower-tier rural municipalities. The index measures a municipality's fiscal circumstances. The MFCI is determined by six indicators: Weighted Assessment per Household, Median Household Income, Average Annual Change in Assessment (New Construction), Employment Rate, Ratio of Working Age to Dependent Population, and Per Cent of Population Above Low-Income Threshold. A lower MFCI corresponds to relatively positive fiscal circumstances, whereas a higher MFCI corresponds to more challenging fiscal circumstances. (Note: the MFCI index is only available for northern and rural municipalities)*

## CALCULATIONS

| | |
|---|---|
| Total Taxes Rec. less Allowance for Uncollectibles as % of Total Taxes Levied | SLC 70 0699 01 / (SLC 26 9199 03 - SLC 72 2899 09) |
| Net Financial Assets or Net Debt as % of Own Source Revenues | SLC 70 9945 01 / (SLC 10 9910 01 - SLC 10 0699 01 - SLC 10 0899 01 - SLC 10 1098 01 - SLC 10 1099 01 - SLC 10 1811 01 - SLC 10 1812 01 - SLC 10 1813 01- SLC 10 1814 01 - SLC 10 1830 01 - SLC 10 1831 01 - SLC 12 1850 04) |
| Total Reserves and Reserve Funds as a % of Municipal Expenses | (SLC 60 2099 02+SLC 60 2099 03)/(SLC 40 9910 11-SLC 12 9910 03-SLC 12 9910 07) |
| Cash Ratio (Total Cash and Cash Equivalents as a % of Current Liabilities) | SLC 70 0299 01 / (SLC 70 2099 01 + SLC 70 2299 01) |
| Debt Servicing Cost as a % of Total Revenues (Less Donated TCAs) | (SLC 74 3099 01 + SLC 74 3099 02) / (SLC 10 9910 01 - SLC 10 1831 01) |
| Closing Amortization Balance as a % or Total Cost of Capital Assets (Asset Consumption Ratio) | SLC 51 9910 10 / SLC 51 9910 06 |
| Annual Surplus / (Deficit) (Less Donated TCAs) as a % of Own Source Revenues | (SLC 10 2099 01 - SLC 10 1831 01) / (SLC 10 9910 01 - SLC 10 0699 01 - SLC 10 0899 01 - SLC 10 1098 01 - SLC 10 1099 01 - SLC 10 1811 01 - SLC 10 1812 01 - SLC 10 1813 01- SLC 10 1814 01 - SLC 10 1830 01 - SLC 10 1831 01 - SLC 12 1850 04) |

## *Executive Summary—Region of Niagara*

### *Socio-Economic Factors*

Socio-economic indicators describe and quantify a municipality's wealth and economic conditions and provide insight into a municipality's collective ability to generate revenue relative to the municipality's demand for public services. An evaluation of socio-economic factors contributes to the development of sound financial policies. An examination of local economic and demographic characteristics can identify the following situations:

- Changes in the tax base as measured by population, property value, employment, or business activity
- A need to shift public service priorities because of demographic changes in the municipality
- A need to shift public policies because of changes in economic conditions

| Socio Economic Factors | 2020 Pop Density per sq. km. | 2011 2016 Pop Increase % | 2019 Building Construction $ per Capita | 2020 Estimated Avg Household Income | 2020 Weighted Median Value of Dwelling | 2020 Unweighted Assessment per Capita | 2020 Weighted Assessment per Capita |
|---|---|---|---|---|---|---|---|
| **Fort Erie** | 197 | 2.5% | $ 3,288 | $ 85,036 | $ 247,126 | $ 120,323 | $ 128,782 |
| **Grimsby** | 437 | 7.9% | N/A | $ 123,318 | $ 407,339 | $ 163,870 | $ 174,784 |
| **Lincoln** | 153 | 5.8% | N/A | $ 120,162 | $ 374,422 | $ 164,908 | $ 164,176 |
| **Niagara Falls** | 459 | 6.1% | N/A | $ 83,246 | $ 266,813 | $ 129,830 | $ 157,231 |
| **Niagara-on-the-Lake** | 146 | 13.7% | $ 6,192 | $ 124,505 | $ 522,048 | $ 291,664 | $ 307,001 |
| **Pelham** | 144 | 3.1% | $ 2,373 | $ 134,479 | $ 385,693 | $ 156,751 | $ 155,434 |
| **Port Colborne** | 156 | -0.6% | N/A | $ 81,223 | $ 212,286 | $ 103,117 | $ 115,444 |
| **St. Catharines** | 1,463 | 1.3% | $ 1,255 | $ 84,015 | $ 255,391 | $ 110,317 | $ 127,388 |
| **Thorold** | 262 | 4.9% | $ 84 | $ 88,067 | $ 252,878 | $ 114,190 | $ 126,096 |
| **Wainfleet** | 31 | 0.3% | N/A | $ 108,155 | $ 338,828 | $ 173,350 | $ 154,260 |
| **Welland** | 691 | 3.3% | $ 2,342 | $ 77,897 | $ 218,427 | $ 89,129 | $ 100,959 |
| **West Lincoln** | 41 | 4.8% | N/A | $ 113,094 | $ 365,634 | $ 150,606 | $ 137,530 |
| **Total Survey Avg** | 549 | 4.8% | $ 3,415 | $ 107,715 | $ 371,559 | $ 174,539 | $ 175,380 |
| **Niagara Region** | 348 | 3.8% | $ 2,589 | $ 101,933 | $ 320,574 | $ 147,338 | $ 154,090 |

### *Financial Indicators*

The Municipal Financial Indicators section of the report includes a number of measures such as the financial position, operating surplus, asset consumption ratio, reserves, debt and taxes receivables.

***Key financial indicators*** have been included to help evaluate each municipality's existing financial condition and to identify future challenges and opportunities. A number of Industry recognized indicators that are used by credit rating agencies and/or recommended by Government Finance Officers' Association (GFOA) and the Ministry of Municipal Affairs and Housing have been included. Indicators related to ***Sustainability, Flexibility*** and ***Vulnerability*** have been included. It should be noted that Water and Wastewater indicators have also been included in the Water/Wastewater section of the report.

## Sustainability

The ability to provide and maintain service and infrastructure levels without resorting to unplanned increases in rates or cuts to services.

| 2019 Sustainability Indicators | Financial Position per Capita | Tax Asset Consumption Ratio | Net Financial Liabilities Ratio |
|---|---|---|---|
| **Fort Erie** | $ 1,317 | 48.7% | (0.8) |
| **Niagara-on-the-Lake** | $ 1,382 | 35.7% | (0.8) |
| **Pelham** | $ (1,823) | 38.1% | 1.5 |
| **Port Colborne** | $ (1,322) | 39.2% | 0.8 |
| **St. Catharines** | $ 56 | 45.3% | (0.0) |
| **Thorold** | $ 1,420 | 47.8% | (1.0) |
| **Welland** | $ 728 | 44.0% | (0.5) |
| **Total Survey Average** | $ 687 | 44.2% | (0.5) |

## Vulnerability

Addresses a municipality's vulnerability to external sources of funding that it cannot control and its exposure to risks.

| 2019 Vulnerability Indicators | Tax Reserves as % of Taxation | Tax Reserves as % of Own Source Revenues | Tax Reserves / Capita | Tax Debt Charges as % of OSR | Total Debt Out. / Capita | Tax Debt Out. / Capita | Debt Out. per Own Source Revenue | Debt to Reserve Ratio |
|---|---|---|---|---|---|---|---|---|
| **Fort Erie** | 91.3% | 75.9% | $ 790 | 2.6% | $ 193 | $ 101 | 11.9% | 0.2 |
| **Niagara-on-the-Lake** | 41.7% | 24.5% | $ 279 | 1.1% | $ 194 | $ 157 | 11.3% | 0.3 |
| **Pelham** | 21.9% | 18.0% | $ 171 | 6.8% | $ 1,766 | $ 1,723 | 148.0% | 6.3 |
| **Port Colborne** | 89.4% | 69.2% | $ 867 | 10.3% | $ 1,440 | $ 1,286 | 81.8% | 1.5 |
| **St. Catharines** | 43.8% | 31.3% | $ 343 | 11.6% | $ 933 | $ 881 | 63.8% | 2.2 |
| **Thorold** | 186.3% | 152.2% | $ 1,524 | 0.7% | $ 44 | $ 44 | 3.1% | 0.0 |
| **Welland** | 130.5% | 101.1% | $ 1,050 | 13.4% | $ 882 | $ 723 | 58.0% | 0.8 |
| **Total Survey Average** | 79.7% | 59.5% | $ 831 | 4.3% | $ 732 | $ 514 | 38.5% | 0.8 |

## Flexibility

The ability to issue debt responsibly without impacting the credit rating. Also, the ability to generate required revenues.

| 2019 Flexibility Indicators | Taxes Receivable as % of Taxes Levied | Rates Coverage Ratio |
|---|---|---|
| **Fort Erie** | 5.7% | 109.0% |
| **Niagara-on-the-Lake** | 3.8% | 96.6% |
| **Pelham** | 4.9% | 90.1% |
| **Port Colborne** | 9.4% | 85.4% |
| **St. Catharines** | 3.6% | 94.8% |
| **Thorold** | 9.1% | 111.3% |
| **Welland** | 8.8% | 93.4% |
| **Total Survey Average** | 5.6% | 91.6% |

## *Analysis of Net Municipal Levy Per Capita and Per Assessment*

In order to better understand the relative tax position for a municipality, another measure that has been included in the study is a comparison of net municipal levies on a per capita and per $100,000 basis. This measure indicates the total net municipal levy needed to provide services to the municipality. This analysis does not indicate value for money or the effectiveness in meeting community objectives. Net municipal expenditures per capita may vary as a result of:

- Different service levels
- Variations in the types of services
- Different methods of providing services
- Varying demand for services
- What is being collected from rates vs. property taxes
- Locational factors
- Demographic differences
- Socio-economic differences
- Urban/rural composition differences
- User fee policies

As such, this analysis is not an "apples to apples" comparison of services, but rather has been included to provide insight into the net cost of providing municipal services within each municipality. Further analysis would be required to determine the cause of the differences across each spending envelope and within each municipality. This analysis was completed using the most current information available - net municipal levies as per the 2020 municipal levy by-laws and the 2020 estimated populations.

| 2020 | Net Municipal Levy per Capita | Net Municipal Levy per $100,000 Unweighted CVA |
|---|---|---|
| **Fort Erie** | $ 1,699 | $ 1,412 |
| **Grimsby** | $ 1,746 | $ 1,065 |
| **Lincoln** | $ 1,731 | $ 1,050 |
| **Niagara Falls** | $ 1,584 | $ 1,220 |
| **Niagara-on-the-Lake** | $ 2,531 | $ 868 |
| **Pelham** | $ 1,789 | $ 1,141 |
| **Port Colborne** | $ 1,766 | $ 1,712 |
| **St. Catharines** | $ 1,585 | $ 1,437 |
| **Thorold** | $ 1,555 | $ 1,361 |
| **Wainfleet** | $ 1,959 | $ 1,130 |
| **Welland** | $ 1,453 | $ 1,630 |
| **West Lincoln** | $ 1,336 | $ 887 |
| **Total Survey Average** | $ 1,661 | $ 1,082 |
| **Niagara Region** | $ 1,728 | $ 1,243 |

## *User Fees*

A number of user fees have been included in the Study including the following:

| 2020 Fees | Development Charges - Single Detached | Residential Building Permit Fee |
|---|---|---|
| **Fort Erie** | $ 37,146 | $ 2,373 |
| **Grimsby** | $ 37,537 | $ 2,319 |
| **Lincoln** | $ 43,614 | $ 2,338 |
| **Niagara Falls** | $ 33,060 | $ 2,019 |
| **Niagara-on-the-Lake** | $ 31,247 | $ 2,535 |
| **Pelham** | $ 38,798 | $ 2,642 |
| **Port Colborne** | $ 24,398 | $ 2,301 |
| **St. Catharines** | $ 19,835 | $ 2,606 |
| **Thorold** | $ 37,595 | $ 2,535 |
| **Wainfleet** | $ 26,732 | $ 2,428 |
| **Welland** | $ 27,697 | $ 2,606 |
| **West Lincoln** | $ 35,179 | $ 1,991 |
| **Total Survey Average** | $ 37,789 | $ 2,348 |
| **Niagara Region** | $ 32,737 | $ 2,391 |

## *Comparison of Tax Ratios*

Tax ratios reflect how a property class tax rate compares to the residential rate. Changes in tax ratios affect the relative tax burden between classes of properties. Tax ratios can be used to prevent large shifts of the tax burden caused by relative changes in assessment among property classes as well as to lower the tax rates on a particular class or classes.

| 2020 Tax Ratios | Niagara Region | Total Survey Average |
|---|---|---|
| Multi-Residential | 1.9700 | 1.7603 |
| Commercial (Residual) | 1.7349 | 1.6747 |
| Industrial (Residual) | 2.6300 | 2.1610 |

## *Taxes and Comparison of Relative Taxes*

The purpose of this section of the report is to undertake "like" property comparisons across each municipality and across various property types. In total there are 12 property types in the residential, multi-residential, commercial and industrial classes. There are many reasons for differences in relative tax burdens across municipalities and across property classes including, but not limited to:

- Differences in values of like properties
- Differences in the tax ratios and the use of optional classes
- Non-uniform education tax rates in the non-residential classes
- Level of service provided and the associated costs
- Extent to which a municipality employs user fees
- Access to other sources of revenues such as dividends from hydro utilities and casino revenues

| 2020 Property Taxes | Detached Bungalow | 2 Storey Home | Senior Executive Home | Walk Up Apartment (per Unit) | Mid/High Rise (per Unit) | Neigh. Shopping (per sq. ft.) |
|---|---|---|---|---|---|---|
| **Fort Erie** | $ 3,381 | $ 4,832 | N/A | $ 1,427 | $ 1,588 | $ 4.11 |
| **Grimsby** | $ 4,329 | $ 5,604 | $ 6,678 | $ 1,559 | $ 1,559 | $ 4.69 |
| **Lincoln** | $ 4,190 | $ 5,105 | $ 7,023 | $ 1,667 | $ 1,559 | $ 3.65 |
| **Niagara Falls** | $ 3,512 | $ 4,935 | $ 6,425 | $ 1,960 | $ 1,885 | $ 4.31 |
| **Niagara-on-the-Lake** | $ 3,903 | $ 3,695 | $ 6,977 | N/A | N/A | $ 3.63 |
| **Pelham** | $ 3,557 | $ 4,949 | $ 6,695 | $ 1,427 | $ 1,291 | $ 3.64 |
| **Port Colborne** | $ 3,512 | $ 5,544 | $ 6,630 | $ 1,612 | $ 1,784 | $ 4.81 |
| **St. Catharines** | $ 4,068 | $ 5,155 | $ 7,182 | $ 2,060 | $ 2,443 | $ 5.28 |
| **Thorold** | $ 3,330 | $ 4,914 | $ 6,476 | $ 1,807 | $ 1,818 | $ 3.90 |
| **Wainfleet** | $ 3,812 | N/A | N/A | $ 1,520 | N/A | N/A |
| **Welland** | $ 3,840 | $ 5,411 | $ 6,393 | $ 1,633 | $ 2,243 | $ 4.64 |
| **West Lincoln** | $ 3,586 | $ 4,647 | N/A | $ 1,357 | N/A | $ 3.13 |
| **Total Survey Average** | $ 3,549 | $ 4,714 | $ 6,560 | $ 1,430 | $ 1,802 | $ 3.88 |
| **Niagara Region** | $ 3,752 | $ 4,981 | $ 6,720 | $ 1,639 | $ 1,797 | $ 4.16 |

| 2020 Property Taxes | Office Building (per sq. ft.) | Hotels (per Suite) | Motels (per Suite) | Industrial Std (per sq. ft.) | Industrial Large (per sq. ft) | Industrial Vacant Land (per Acre) |
|---|---|---|---|---|---|---|
| **Fort Erie** | $ 2.48 | $ 985 | $ 731 | $ 1.26 | $ 0.50 | $ 1,620 |
| **Grimsby** | $ 4.62 | $ 1,313 | $ 1,130 | $ 2.92 | $ 2.12 | $ 10,316 |
| **Lincoln** | $ 1.96 | $ 1,591 | N/A | $ 1.93 | N/A | $ 4,962 |
| **Niagara Falls** | $ 2.56 | $ 3,086 | $ 1,320 | $ 1.82 | $ 1.04 | $ 4,573 |
| **Niagara-on-the-Lake** | $ 3.22 | $ 4,063 | $ 1,746 | $ 2.40 | N/A | $ 5,964 |
| **Pelham** | N/A | N/A | $ 869 | $ 1.62 | N/A | $ 605 |
| **Port Colborne** | $ 3.34 | N/A | $ 1,060 | $ 2.02 | $ 1.40 | $ 994 |
| **St. Catharines** | $ 3.01 | $ 1,372 | $ 1,797 | $ 2.12 | $ 1.22 | $ 7,621 |
| **Thorold** | $ 2.67 | $ 1,755 | $ 792 | $ 1.96 | $ 0.87 | $ 7,030 |
| **Wainfleet** | N/A | N/A | $ 971 | $ 2.07 | N/A | $ 567 |
| **Welland** | $ 2.63 | $ 1,370 | $ 1,097 | $ 1.40 | $ 0.33 | $ 1,514 |
| **West Lincoln** | N/A | N/A | N/A | $ 2.07 | $ 0.33 | $ 1,721 |
| **Total Survey Average** | $ 3.20 | $ 1,644 | $ 1,273 | $ 1.72 | $ 1.19 | $ 4,681 |
| **Niagara Region** | $ 2.94 | $ 1,942 | $ 1,151 | $ 1.97 | $ 0.98 | $ 3,957 |

## *Comparison of Water and Sewer User Costs*

A comparison was made of water/sewer costs in each municipality. The following table summarizes the costs in the municipality for water and sewer on typical annual consumption against the overall survey average.

| 2020 Water/Sewer Cost of Service | Residential - 200 m$^3$ | Commercial - 10,000 m$^3$ | Industrial - 30,000 m$^3$ | Industrial - 100,000 m$^3$ | Industrial - 500,000 m$^3$ |
|---|---|---|---|---|---|
| **Fort Erie** | $ 1,496 | $ 37,072 | $ 113,060 | $ 358,712 | $ 1,754,318 |
| **Grimsby** | N/A | N/A | N/A | N/A | N/A |
| **Lincoln** | $ 1,056 | $ 46,577 | $ 138,716 | $ 460,455 | $ 2,298,098 |
| **Niagara Falls** | $ 954 | $ 26,392 | $ 76,152 | $ 244,414 | $ 1,187,453 |
| **Niagara-on-the-Lake** | $ 1,172 | $ 29,415 | $ 89,711 | $ 284,993 | $ 1,394,610 |
| **Pelham** | $ 878 | $ 27,617 | $ 82,143 | $ 267,907 | $ 1,321,810 |
| **Port Colborne** | $ 1,480 | $ 30,169 | $ 92,647 | $ 287,730 | $ 1,393,044 |
| **St. Catharines** | $ 974 | $ 34,449 | $ 104,043 | $ 339,942 | $ 1,684,863 |
| **Thorold** | $ 1,113 | $ 32,532 | $ 96,652 | $ 321,072 | $ 1,603,472 |
| **Wainfleet** | N/A | N/A | N/A | N/A | N/A |
| **Welland** | $ 1,353 | $ 51,681 | $ 155,821 | $ 511,730 | $ 2,542,059 |
| **West Lincoln** | $ 1,168 | $ 36,476 | $ 105,251 | $ 336,049 | $ 1,641,097 |
| **Total Survey Average** | $ 1,151 | $ 37,812 | $ 109,553 | $ 355,584 | $ 1,751,816 |
| **Niagara Region** | $ 1,164 | $ 35,238 | $ 105,420 | $ 341,300 | $ 1,682,082 |

## *2020 Property Taxes and Water/Wastewater Costs as a % of Income*

This section of the report provides a comparison of the availability of gross household income to fund municipal services on a typical household. This provides a measure of affordability within each community.

| 2020 Affordability Indicators | Property Taxes as a % of Household Income | Water/Sewer + Taxes as a % of Household Income |
|---|---|---|
| **Fort Erie** | 4.3% | 6.1% |
| **Grimsby** | 3.9% | 4.4% |
| **Lincoln** | 3.8% | 4.7% |
| **Niagara Falls** | 4.1% | 5.3% |
| **Niagara-on-the-Lake** | 4.0% | 4.9% |
| **Pelham** | 3.7% | 4.4% |
| **Port Colborne** | 4.4% | 6.3% |
| **St. Catharines** | 4.4% | 5.5% |
| **Thorold** | 4.0% | 5.3% |
| **Wainfleet** | 4.5% | 4.5% |
| **Welland** | 4.5% | 6.2% |
| **West Lincoln** | 3.7% | 4.7% |
| **Total Survey Average** | 3.8% | 4.8% |
| **Niagara Region** | 4.1% | 5.2% |

## *Economic Development Programs*

A summary was completed of programs that municipalities have implemented to promote economic development in the areas of retention and expansion, downtown development, and brownfield redevelopment.

S&P Global
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Research Update:

# Regional Municipality of Niagara Ratings Affirmed At 'AA'; Outlook Remains Stable

**October 13, 2020**

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## Overview

- The COVID-19 pandemic has dampened the Regional Municipality of Niagara's economy, and a larger capital plan will weaken the region's budgetary results. Nevertheless, the region benefits from manageable debt levels and very ample liquidity.
- We are affirming our 'AA' long-term issuer credit and senior unsecured debt ratings and maintaining our stable outlook on the region.

## Rating Action

On Oct. 13, 2020, S&P Global Ratings affirmed its 'AA' long-term issuer credit and senior unsecured debt ratings on the Regional Municipality of Niagara, in the Province of Ontario. The outlook is stable.

## Outlook

The stable outlook reflects our expectation that, in the next two years, Niagara's larger capital plan will cause its budgetary results to weaken, leading to after-capital deficits of less than 5% of total revenues, on average. The additional capital spending will require Niagara to rely more on external financing, pushing its debt burden up to about 94% of operating revenues by 2022. In addition, we believe its economic recovery will be slower than in other regions. Nevertheless, we estimate that its liquidity position will remain very ample, with debt service coverage ratios exceeding 100% in the next two years.

### Downside scenario

We could take a negative rating action if a larger capital plan resulted in sustained after-capital deficits of more than 5% of total revenues and additional borrowing resulted in tax-supported debt, excluding on-lending, increasing to more than 60% of operating revenues in the next two years.

### Upside scenario

While unlikely in the next two years, we could take a positive rating action if the region demonstrated significant and sustained economic and demographic improvement through healthier growth in population and household incomes, more in line with that of Canada, and its after-capital deficits improved to a balanced position.

## Rationale

We have updated our base-case scenario for Niagara and extended our forecast horizon through 2022. We expect the pandemic will have a small impact on the region's budgetary results, as management has implemented adequate actions to offset the increase in expenditures and the region will receive at least C$12.8 million in emergency operating funds through the federal Safe Restart Agreement. For 2020-2022, we estimate operating balances will remain relatively stable but that Niagara's larger capital plan will result in after-capital deficits of less than 5% of total revenues, on average. The additional capital expenditures are likely to increase the region's debt burden but we expect it will remain manageable, with debt service coverage ratios of more than 100% in our forecast horizon. Although we expect that the region will continue to benefit from a supportive institutional framework and from sound financial management, we believe that Niagara's less favorable socioeconomic profile partially mitigates these strengths. In addition, we believe Niagara's economic recovery will be slower than in other regions because of the region's relatively higher reliance on the tourism and hospitality sectors, which have been severely affected by the pandemic.

### Financial management is strong and institutions remain broadly supportive but a less favorable socioeconomic profile constrains the ratings.

Niagara, in southern Ontario, is home to one of the most active Canada-U.S. border crossings and enjoys a favorable climate that makes it an agricultural center and popular tourist destination under normal circumstances. On top of lockdown measures implemented as a response to COVID-19, the region's economy has been additionally hampered by travel restrictions and the closure of the Canada-U.S. border to non-commercial traffic. We believe Niagara's economy will contract in 2020 and will begin to recover over the next two years as social distancing measures ease. Nevertheless, we believe Niagara's recovery will be slower than in other regions because of its relatively higher reliance on the tourism and hospitality sectors, which have been severely affected by the pandemic. While GDP per capita is not available at the local level, we believe that it would be below the national level of about US$42,000 in 2019, based on Niagara's lower income levels. In our opinion, slow population growth and weak demographic trends result in a less favorable socioeconomic profile that could negatively affect the labor pool and hinder investment in the region. However, in the medium term, the expansion of GO commuter train service in the region could increase the influx of younger people and start reversing these trends.

We consider that the management team has adequate expertise in implementing policy changes. With Ontario's regional government review resulting in no changes to the region's structure, we expect senior positions that were acting roles will become permanent positions. We believe this will reduce turnover in senior management and will lend greater stability to management practices. Niagara maintains increased focus on long-term strategic and financial planning, which its financial policies support. The region approves operating and capital budgets annually, and presents a three-year operating budget and a nine-year capital forecast with the corresponding funding sources. Long-term plans present a good level of detail and are based on well-documented and realistic assumptions, in our opinion. Disclosure and transparency of financial reports are what we view as good. We believe that debt and liquidity management practices are prudent.

We believe Canadian municipalities benefit from a very predictable and well-balanced institutional framework that has demonstrated a high degree of institutional stability. Although provincial governments mandate a significant proportion of municipal spending, they also provide operating fund transfers and impose fiscal restraint through legislative requirements to pass balanced operating budgets. Municipalities generally have the ability to match expenditures well with revenues, except for capital spending, which can be intensive. Any operating surpluses typically fund capital expenditures and future liabilities (such as postemployment obligations and landfill closure costs) through reserve contributions.

## Larger capital plan will weaken budgetary performance but debt levels will remain manageable.

In our base-case scenario for 2018-2022, we expect operating balances to remain high at 12% of operating revenues on average. We expect the operating balance to remain stable in 2020 and to decline in 2021 as a result of the pandemic before starting to recover thereafter. We believe the impact will be small, as management's actions to reduce operating expenditures and the receipt of at least C$12.8 million in emergency operating funds (including for transit) through the Safe Restart Agreement will largely offset the increase in pandemic-related expenditures in 2020, most of which are associated with the region's long-term care homes. Nevertheless, maintenance capital projects and work related to the region's long-term care homes and the expansion of GO commuter train service will increase capital spending, resulting in an after-capital deficit of 1% of total revenues, on average, in 2018-2022. Of note, a special-purpose levy of 1% of the prior year's tax levy helps to offset capital infrastructure expenditures.

In 2020-2022, Niagara plans to issue C$337 million in debt on behalf of its lower-tier municipalities as well as to fund part of its capital projects. As a result, we expect tax-supported debt, which includes both the region's debt as well as the on-lent debt to Niagara's lower-tier municipalities, will increase to 94% of operating revenues at year-end 2022, up from 82% at year-end 2019. We expect that, excluding on-lending, the region's debt burden will increase to 56% of operating revenues. We believe that Niagara's lower-tier municipalities are able to support their obligations and will reimburse the region for all principal and interest payments as they come due. We recognize that there is a lower credit risk associated with this debt, which, in our opinion, mitigates the region's overall debt burden. Interest costs accounted for 3% of operating revenues in 2019 and we expect they will remain stable during our two-year outlook horizon.

In our view, Niagara's liquidity is a key credit strength. We estimate total free cash in the next 12 months will be enough to cover almost 7x the estimated debt service for the period. We expect this ratio will remain well above 100% during the outlook horizon. Similar to that of its domestic peers, the region's access to external liquidity is satisfactory.

## Key Statistics

Table 1

## Regional Municipality of Niagara -- Selected Indicators

| | --Year ended Dec. 31-- | | | | |
|---|---|---|---|---|---|
| **(Mil. C$)** | **2018** | **2019** | **2020bc** | **2021bc** | **2022bc** |
| Operating revenues | 825 | 852 | 908 | 889 | 899 |
| Operating expenditures | 713 | 752 | 799 | 801 | 797 |
| Operating balance | 111 | 100 | 109 | 88 | 102 |
| Operating balance (% of operating revenues) | 13.5 | 11.7 | 12.0 | 9.9 | 11.3 |
| Capital revenues | 39 | 44 | 50 | 60 | 60 |
| Capital expenditures | 104 | 158 | 168 | 200 | 200 |
| Balance after capital accounts | 46 | (14) | (9) | (52) | (38) |
| Balance after capital accounts (% of total revenues) | 5.4 | (1.5) | (0.9) | (5.4) | (4.0) |
| Debt repaid | 56 | 65 | 62 | 62 | 64 |
| Gross borrowings | 87 | 98 | 124 | 97 | 117 |
| Balance after borrowings | 78 | 20 | 53 | (16) | 15 |
| Tax-supported debt (outstanding at year-end) | 663 | 700 | 760 | 793 | 844 |
| Tax-supported debt (% of consolidated operating revenues) | 80.4 | 82.2 | 83.7 | 89.2 | 93.8 |
| Interest (% of operating revenues) | 2.8 | 2.8 | 2.7 | 2.5 | 2.3 |
| National GDP per capita (single units) | 60,011 | 61,291 | 57,181 | 60,677 | 63,026 |

The data and ratios above result in part from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario.

# Ratings Score Snapshot

Table 2

## Regional Municipality of Niagara -- Ratings Score Snapshot

| Key rating factors | Scores |
|---|---|
| Institutional framework | 2 |
| Economy | 3 |
| Financial management | 2 |
| Budgetary performance | 2 |
| Liquidity | 1 |
| Debt burden | 2 |
| Stand-alone credit profile | aa |

Table 2

**Regional Municipality of Niagara -- Ratings Score Snapshot (cont.)**

| Key rating factors | Scores |
|---|---|
| Issuer credit rating | AA |

S&P Global Ratings bases its ratings on non-U.S. local and regional governments (LRGs) on the six main rating factors in this table. In the "Methodology For Rating Local And Regional Governments Outside Of The U.S.," published on July 15, 2019, we explain the steps we follow to derive the global scale foreign currency rating on each LRG. The institutional framework is assessed on a six-point scale: 1 is the strongest and 6 the weakest score. Our assessments of economy, financial management, budgetary performance, liquidity, and debt burden are on a five-point scale, with 1 being the strongest score and 5 the weakest.

## Key Sovereign Statistics

- Sovereign Risk Indicators, Oct. 12, 2020. Interactive version can be found www.spratings.com/SRI

## Related Criteria

- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019

## Related Research

- S&P Global Ratings Definitions, Aug. 7, 2020
- Public Finance System: Canadian Municipalities, May 12, 2020
- Guidance: Methodology For Rating Local And Regional Governments Outside Of The U.S., July 15, 2019
- Institutional Framework Assessments For International Local And Regional Governments, July 4, 2019

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

## Ratings List

| Ratings Affirmed | |
|---|---|
| **Niagara (Regional Municipality of)** | |
| Issuer Credit Rating | AA/Stable/-- |
| Senior Unsecured | AA |

# Key Findings

## E. Financial Sustainability, Flexibility and Vulnerability

In Canada, the development and maintenance of principles for financial reporting fall under the responsibility of the Accounting Standards Oversight Council ('AcSOC'), a volunteer body established by the Canadian Institute of Chartered Accountants in 2000. In this role, AcSOC provides input to and monitors and evaluates the performance of the two boards that are tasked with established accounting standards for the private and public sector:

- The Public Sector Accounting Board ('PSAB') establishes accounting standards for the public sector, which includes municipal governments; and
- The Accounting Standards Board ('AcSB'), which is responsible for the establishment of accounting standards for Canadian entities outside of the public sector.

In May 2009, PSAB released a Statement of Recommended Practice that provided guidance on how public sector bodies should report on indicators of financial condition. As defined in the statement, financial condition is '*a government's financial health as assessed by its ability to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others*'. In reporting on financial condition, PSAB also recommended that three factors, at a minimum, need to be considered:

- **Sustainability**. Sustainability is the degree to which the Region can deliver services and meet its financial commitments without increasing its debt or tax burden relative to the economy in which it operates. To the extent that the level of debt or tax burden grows at a rate that exceeds the growth in the Region's assessment base, there is an increased risk that the Region's current spending levels (and by association, its services, service levels and ability to meet creditor obligations) cannot be maintained.
- **Flexibility**. Flexibility reflects the Region's ability to increase its available sources of funding (debt, taxes or user fees) to meet increasing costs. Municipalities with relatively high flexibility have the potential to absorb cost increases without adversely impacting on affordability for local residents and other ratepayers. On the other hand, municipalities with low levels of flexibility have limited options with respect to generating new revenues, requiring an increased focus on expenditure reduction strategies.
- **Vulnerability**. Vulnerability represents the extent to which the Region is dependent on sources of revenues, predominantly grants from senior levels of government, over which it has no discretion or control. The determination of vulnerability considers (i) unconditional operating grants such as OMPF; (ii) conditional operating grants such as Provincial Gas Tax for transit operations; and (iii) capital grant programs. Municipalities with relatively high indicators of vulnerability are at risk of expenditure reductions or taxation and user fee increases in the event that senior levels of funding are reduced. This is particularly relevant for municipalities that are vulnerable with respect to operating grants from senior levels of government, as the Municipal Act does not allow municipalities to issue long-term debt for operating purposes (Section 408(2.1)).

# Key Findings

As a means of reporting the Region's financial condition, we have considered the following financial indicators (*denotes PSAB recommended financial indicator).

| Financial Condition Category | Financial Indicators |
|---|---|
| Sustainability | 1. Financial assets to financial liabilities*<br>2. Total reserves and reserve funds per household<br>3. Capital additions as a percentage of amortization expense |
| Flexibility | 4. Residential taxes per household<br>5. Total long-term debt per household<br>6. Residential taxation as a percentage of average household income<br>7. Debt servicing costs (interest and principal) as a percentage of total revenues*<br>8. Net book value of tangible capital assets as a percentage of historical cost of tangible capital assets* |
| Vulnerability | 9. Operating grants as a percentage of total revenues*<br>10. Capital grants as a percentage of total capital expenditures* |

An overview of these financial indicators, including a comparison of the Region's performance and position against selected upper-tier municipalities (Durham, Halton and Waterloo), is included as Appendix C.

As noted on the following pages, the Region's financial indicators compare favourably with the selected peer municipalities. From an overall perspective, we note that:

- The Region has a lower rate of capital investment than the comparator municipalities, which likely translates into a higher infrastructure deficit;
- The Region's level of reserves is towards the lower end of the range, indicating a lower level of financial flexibility;
- The Region's long-term debt and associated debt servicing costs, are towards the upper range of the comparator municipalities; and
- The Region's taxation levels (upper tier only) are the lowest in terms of residential taxation per household and taxation as a percentage of total assessment. From an affordability perspective, residential taxes as a percentage of household income are the second lowest of the four upper tier municipalities included in the analysis.

We suggest that these factors, both individually and collectively, may increase the Region's potential risk with respect to long-term sustainability and flexibility.

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Region of Niagara Service
Sustainability Review

# Appendix C
# Sustainability, Flexibility and Vulnerability Indicators

# Financial Indicators

**FINANCIAL ASSETS TO FINANCIAL LIABILITIES**

This financial indicator provides an assessment of the Region's solvency by comparing financial assets (including cash, investments and accounts receivable) to financial liabilities (accounts payable, deferred revenue and long-term debt). Lower levels of financial assets to financial liabilities (i.e. less than 1.0) are indicative of limited financial resources available to meet cost increases or revenue losses, which higher levels (i.e. more than 1.5) suggest that the municipality has a higher level of available financial resources to offset cost increases, funding losses or future capital reinvestment.

**TYPE OF INDICATOR**

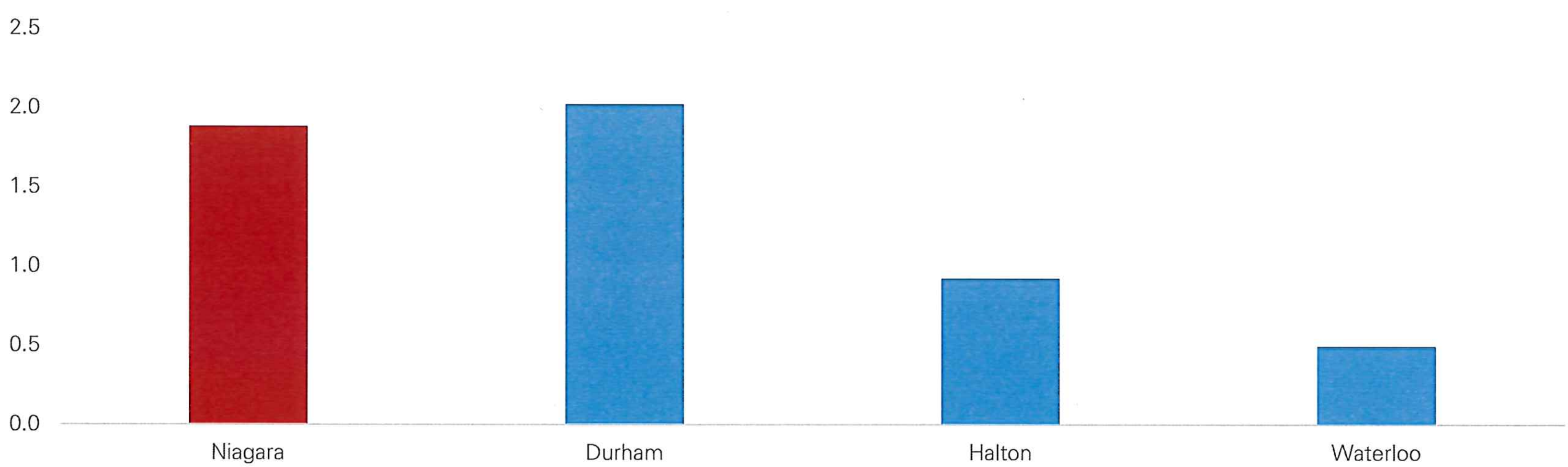
Sustainability ✓

Flexibility

Vulnerability

**POTENTIAL LIMITATIONS**

- Financial assets may include investments in government business enterprises, which may not necessarily be converted to cash or yield cash dividends
- Financial liabilities may include liabilities for employee future benefits and future landfill closure and post-closure costs, which may (i) not be realized for a number of years; and/or (ii) may not be realized at once but rather over a number of years




KPMG

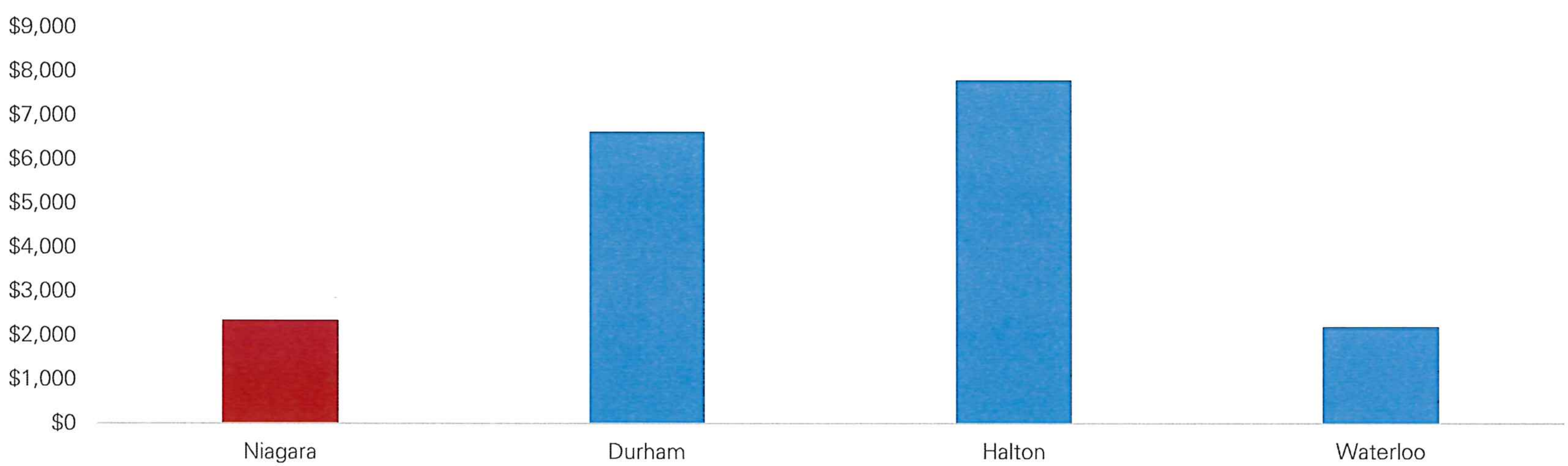
# Financial Indicators

| TOTAL RESERVES AND RESERVE FUNDS PER HOUSEHOLD |
|---|
| This financial indicator provides an assessment of the Region's ability to absorb incremental expenses or revenue losses through the use of reserves and reserve funds as opposed to taxes, user fees or debt. Low reserve levels are indicative of limited capacity to deal with cost increases or revenue losses, requiring the Region to revert to taxation or user fee increases or the issuance of debt. While there is no defined standard for the "right" level of reserve and reserve funds per household, upper tier municipalities in Ontario reported an average of $3,800 in reserve and reserve funds per household, which is higher than the Region's reserve and reserve fund balances per household. |

| TYPE OF INDICATOR | |
|---|---|
| Sustainability | ✓ |
| Flexibility | |
| Vulnerability | |

**POTENTIAL LIMITATIONS**

- Reserves and reserve funds are often committed to specific projects or purposes and as such, may not necessarily be available to fund incremental costs or revenue losses
- As reserves are not funded, the Region may not actually have access to financial assets to finance additional expenses or revenue losses



# Financial Indicators

### CAPITAL ADDITIONS AS A PERCENTAGE OF AMORTIZATION EXPENSE

This financial indicator provides an assessment of the Region's solvency by assessing the extent to which it is sustaining its tangible capital assets. In the absence of meaningful reinvestment in tangible capital assets, the Region's ability to continue to deliver services at the current levels may be compromised. Over the long-term, investment levels of less than 100% to 150% can contribute to an increase in a municipality's infrastructure deficit and an associated reduction in service levels, with higher levels of capital investment likely indicative of the sustainment of capital infrastructure.

### TYPE OF INDICATOR

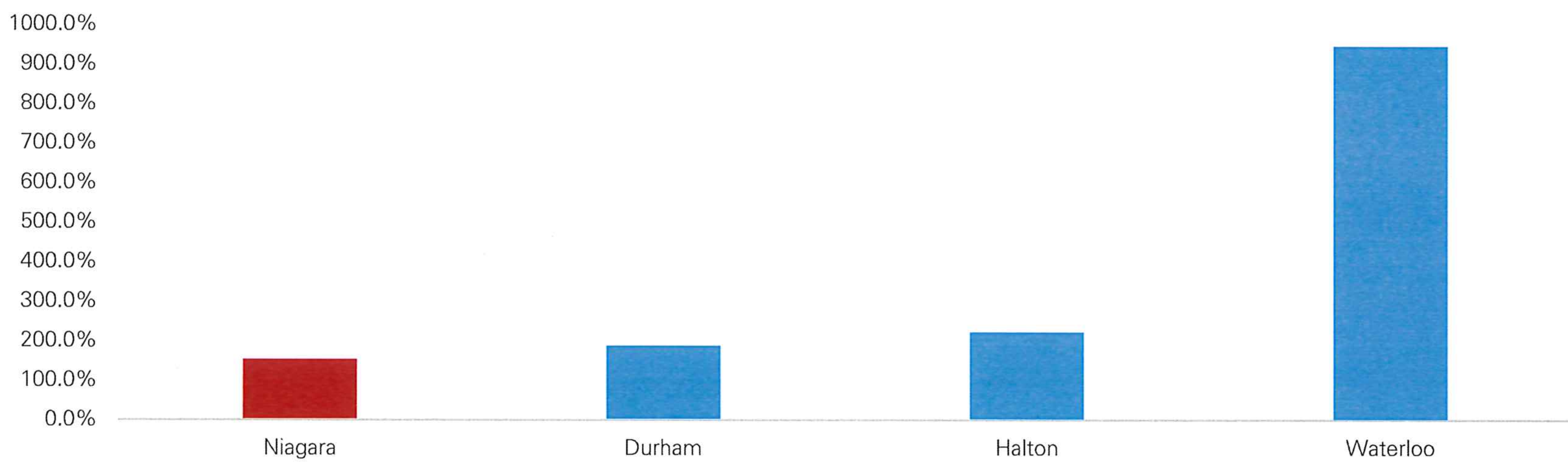
Sustainability ✓

Flexibility

Vulnerability

### POTENTIAL LIMITATIONS

- This indicator considers amortization expense, which is based on historical as opposed to replacement cost. As a result, the Region's capital reinvestment requirement will be higher than its reported amortization expense due to the effects of inflation.
- This indicator does not consider the differential between reinvestment of existing infrastructure vs. the construction of new infrastructure as a result of growth, regulatory changes or other factors.



# Financial Indicators

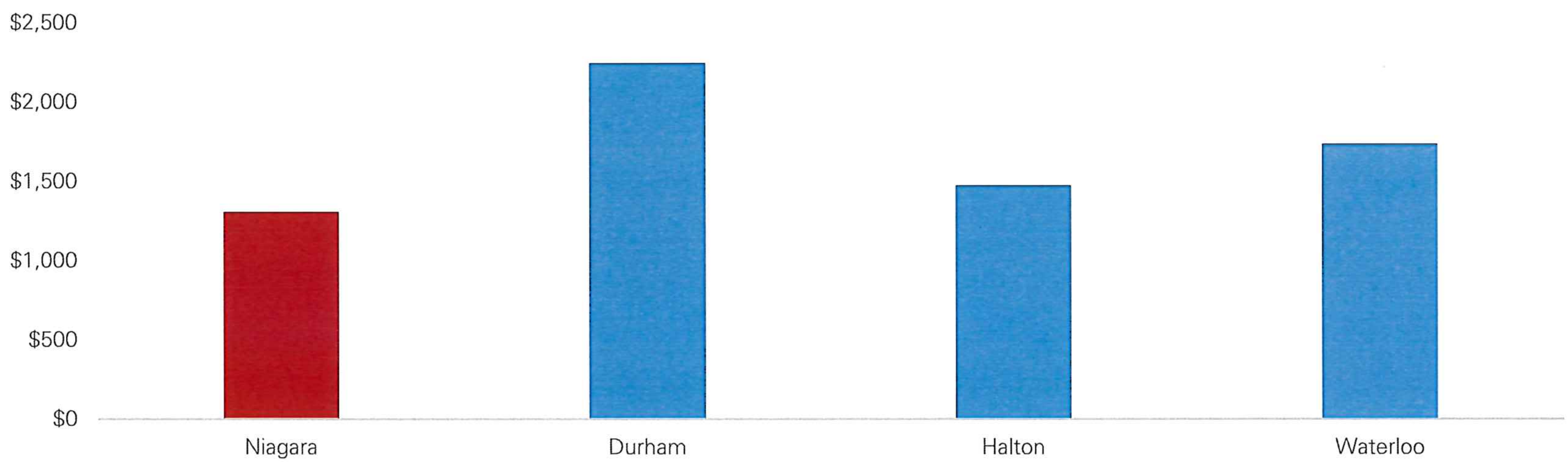
| **RESIDENTIAL TAXES PER HOUSEHOLD** |
|---|
| This financial indicator provides an assessment of the Region's ability to increase taxes as a means of funding incremental operating and capital expenditures. Determining an appropriate level of taxation per household involves a range of considerations, including services, service levels and the balance between municipal taxation and user fees and as such, there can be considerable variability between municipalities. |

**TYPE OF INDICATOR**

| | |
|---|---|
| Sustainability | |
| Flexibility | ✓ |
| Vulnerability | |

**POTENTIAL LIMITATIONS**

- This indicator does not incorporate income levels for residents and as such, does not fully address affordability concerns.
- In addition to upper tier taxes, taxpayers are also subject to taxation at the lower-tier and education level and as such, this indicator does not reflect the total tax cost to ratepayers.



# Financial Indicators

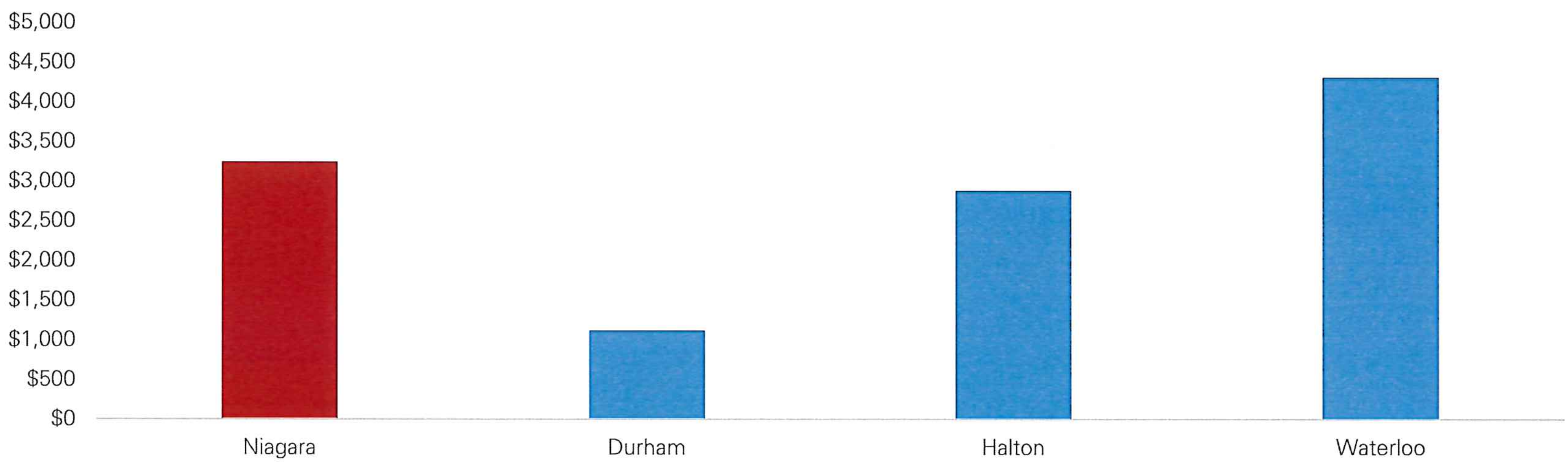
| TOTAL LONG-TERM DEBT PER HOUSEHOLD |
|---|
| This financial indicator provides an assessment of the Region's ability to issue more debt by considering the existing debt loan on a per household basis. High debt levels per household may preclude the issuance of additional debt or result in a high level of debt servicing costs, while lower levels of debt may be indicative of funded capital requirements. While there is no recommended level of debt for Ontario municipalities (other than the limitation of debt servicing costs), upper tier municipalities in Ontario reported an average of $3,200 in debt per household, which includes debt issued on behalf of lower tier municipalities. |

**TYPE OF INDICATOR**

| | |
|---|---|
| Sustainability | |
| Flexibility | ✓ |
| Vulnerability | |

**POTENTIAL LIMITATIONS**

- This indicator does not consider the Provincial limitations on debt servicing cost, which cannot exceed 25% of own-source revenues unless approved by the Ontario Municipal Board



# Financial Indicators

## RESIDENTIAL TAXATION AS A PERCENTAGE OF HOUSEHOLD INCOME

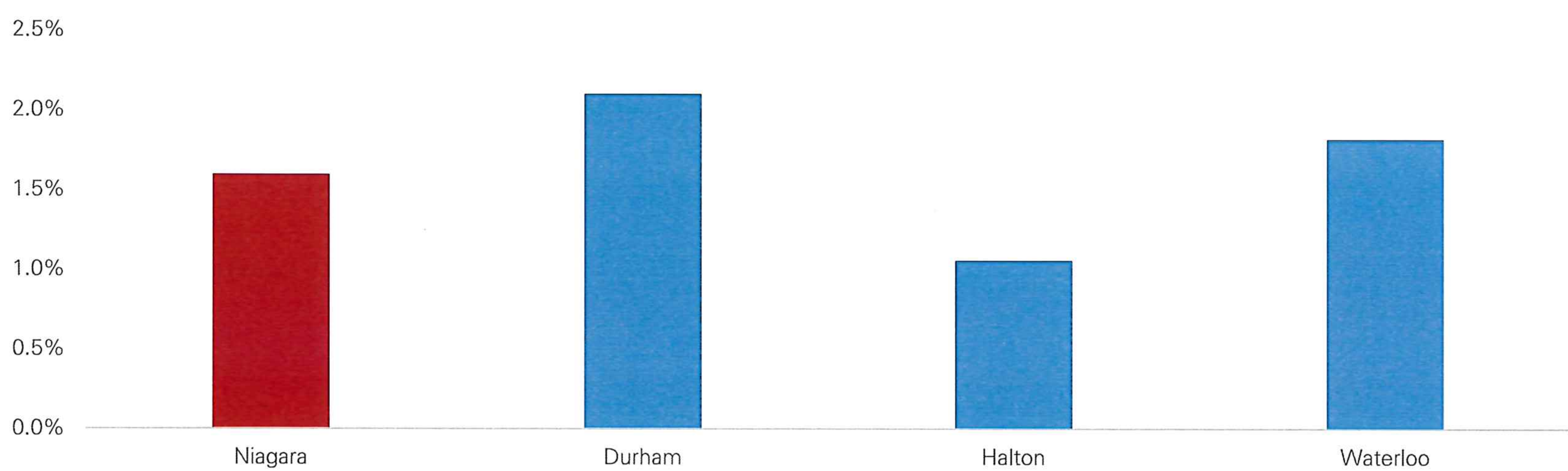
This financial indicator provides an indication of potential affordability concerns by calculating the percentage of total household income used to pay municipal property taxes. Determining an appropriate level of taxation per household involves a range of considerations, including services, service levels and the balance between municipal taxation and user fees and as such, there can be considerable variability between municipalities.

### TYPE OF INDICATOR

| | |
|---|---|
| Sustainability | |
| Flexibility | ✓ |
| Vulnerability | |

### POTENTIAL LIMITATIONS

- This indicator considers residential affordability only and does not address commercial or industrial affordability concerns.
- This indicator is calculated on an average household basis and does not provide an indication of affordability concerns for low income or fixed income households.



# Financial Indicators

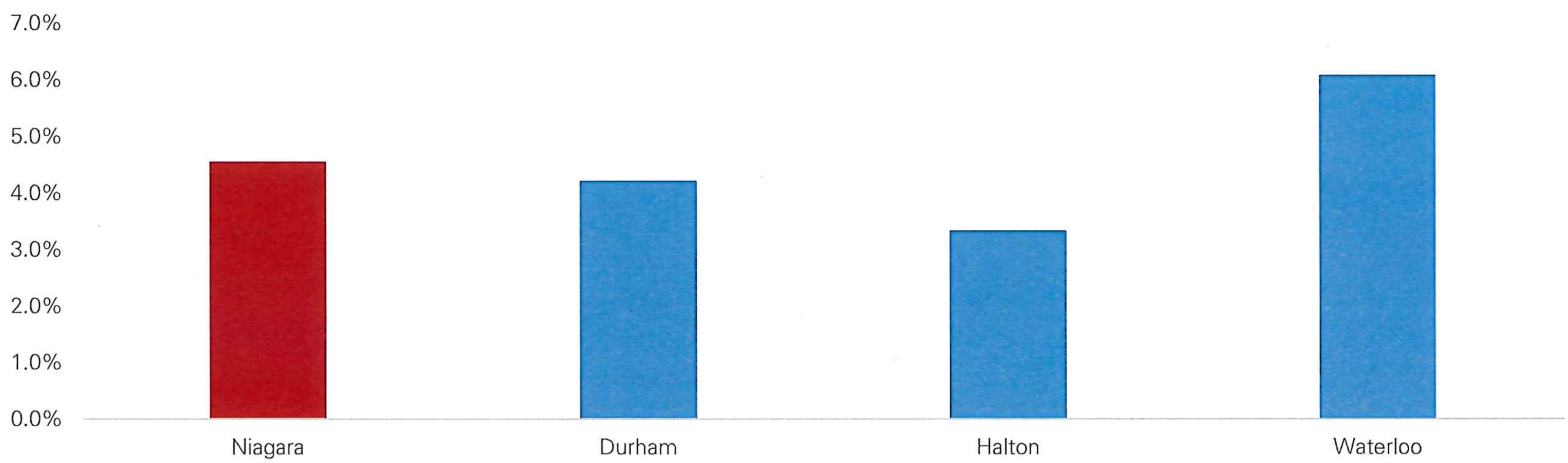
**DEBT SERVICING COSTS (INTEREST AND PRINCIPAL) AS A PERCENTAGE OF TOTAL REVENUES**

This financial indicator provides an indication as to the Region's overall indebtedness by calculating the percentage of revenues used to fund long-term debt servicing costs. High debt levels per household may preclude the issuance of additional debt or result in a high level of debt servicing costs, while lower levels of debt may be indicative of funded capital requirements. While there is no recommended level of debt for Ontario municipalities (other than the limitation of debt servicing costs), upper tier municipalities in Ontario, on average, incurred debt servicing costs (interest and principal) accounting to approximately 4% of total revenues.

| TYPE OF INDICATOR | |
|---|---|
| Sustainability | |
| Flexibility | ✓ |
| Vulnerability | |

**POTENTIAL LIMITATIONS**

- No significant limitations have been identified in connection with this indicator



# Financial Indicators

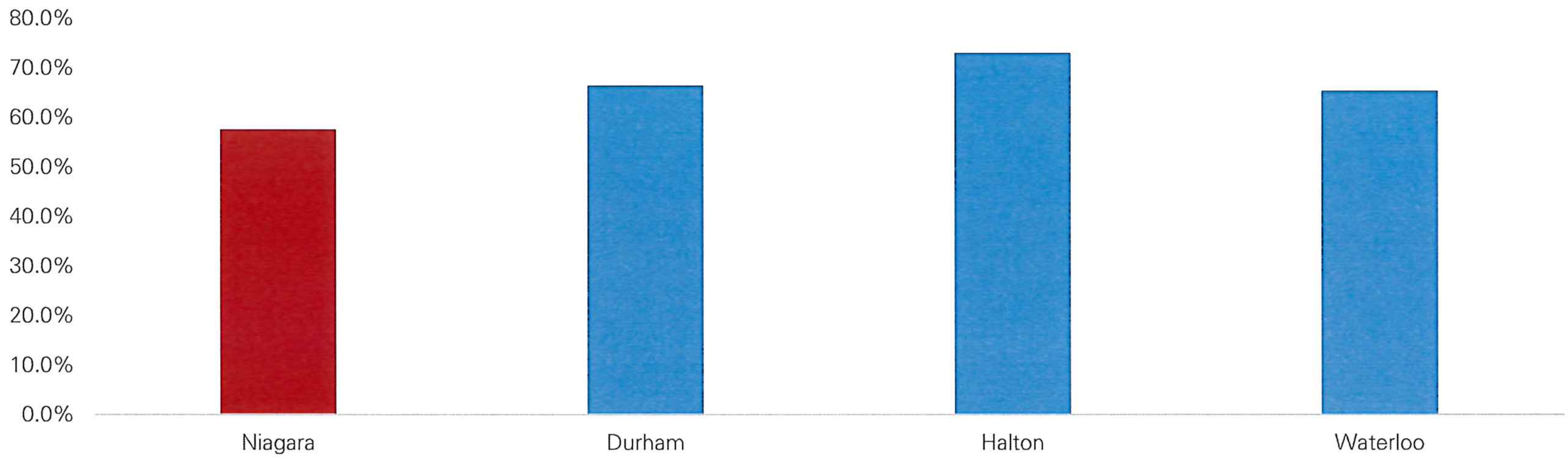
| NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS AS A PERCENTAGE OF HISTORICAL COST OF TANGIBLE CAPITAL ASSETS |
|---|
| This financial indicator provides an indication as to the extent to which the Region is reinvesting in its capital assets as they reach the end of their useful lives. An indicator of 50% indicates that the Region is, on average, investing in capital assets as they reach the end of useful life, with indicators of less than 50% indicating that the Region's reinvestment is not keeping pace with the aging of its assets. |

**TYPE OF INDICATOR**

| | |
|---|---|
| Sustainability | |
| Flexibility | ✓ |
| Vulnerability | |

**POTENTIAL LIMITATIONS**

- This indicator is based on the historical cost of the Region's tangible capital assets, as opposed to replacement cost. As a result, the Region's pace of reinvestment is likely lower than calculated by this indicator as replacement cost will exceed historical cost.
- This indicator is calculated on a corporate-level basis and as such, will not identify potential concerns at the departmental level.



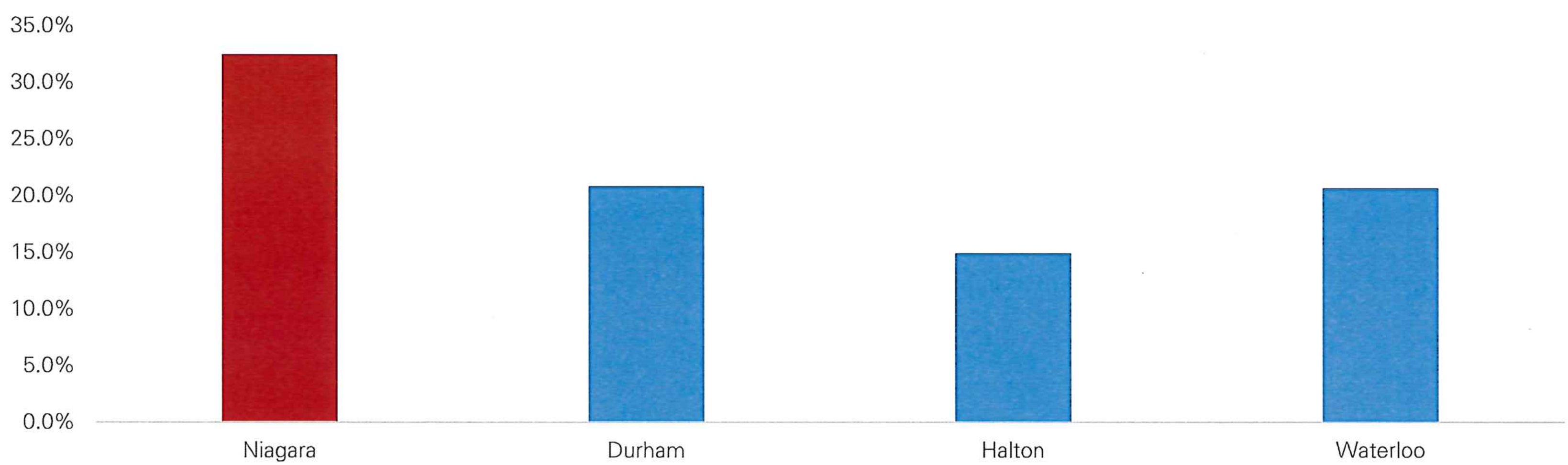
# Financial Indicators

| OPERATING GRANTS AS A PERCENTAGE OF TOTAL REVENUES |
|---|
| This financial indicator provides an indication as to the Region's degree of reliance on senior government grants for the purposes of funding operating expenses. The level of operating grants as a percentage of total revenues is directly proportionate with the severity of the impact of a decrease in operating grants. Notwithstanding the increase in a municipality's vulnerability, higher levels of operating grants are sought in order to decrease the share of municipal operating costs funded by taxpayers, decreasing concerns over affordability. |

| TYPE OF INDICATOR | |
|---|---|
| Sustainability | |
| Flexibility | |
| Vulnerability | ✓ |

**POTENTIAL LIMITATIONS**

- To the extent possible, the Region should maximize its operating grant revenue. As such, there is arguably no maximum level associated with this financial indicator.



# Financial Indicators

**CAPITAL GRANTS AS A PERCENTAGE OF TOTAL CAPITAL EXPENDITURES**

This financial indicator provides an indication as to the Region's degree of reliance on senior government grants for the purposes of funding capital expenditures. The level of capital grants as a percentage of total capital expenditures is directly proportionate with the severity of the impact of a decrease in capital grants. Notwithstanding the increase in a municipality's vulnerability, higher levels of capital grants are sought in order to decrease the share of municipal capital costs funded by taxpayers or debt, decreasing concerns over affordability or borrowing levels.

**TYPE OF INDICATOR**

| | |
|---|---|
| Sustainability | |
| Flexibility | |
| Vulnerability | ✓ |

**POTENTIAL LIMITATIONS**

- To the extent possible, the Region should maximize its capital grant revenue. As such, there is arguably no maximum level associated with this financial indicator.