

Municipality of Lakeshore – Report to Council

Corporate Services

Accounting and Revenue



To: Mayor and Members of Council

From: Justin Rousseau, Deputy Chief Administrative Officer/ Chief Financial Officer

Date: June 20, 2024

Subject: 2022 Year- End Financial Ratio and Indicators

Recommendation

This report is presented at the July 9, 2024 Council meeting, for information only.

Strategic Objectives

3b) Modernizing and Enhancing Municipal Functions - Revise business processes to establish and employ a risk management framework, improved workflow management, and financial modelling to inform management of reserves

Background

Financial ratios quantify many aspects of a business and are an integral part of the financial position analysis. Management and financial analysts use financial ratios to compare the strengths and weaknesses of various companies.

Administration monitors financial and operational effectiveness indicators and benchmarking to validate the Municipality's related policies and processes and to identify opportunities for change that would improve operational outcomes.

The financial ratio analysis focuses on important indicators such as the Municipality's ability to pay its short-term debts (liquidity ratios), to efficiently issue credit to its ratepayers/customers and collect funds from them in a timely manner (tax and accounts receivable ratios), and how much capital comes in the form of debt (loans) and/or the Municipality's ability to meet its financial obligations (financial leverage ratios).

Comments

This report outlines key financial indicators and benchmarks for the Municipality based on the 2022 Audited Financial Statements, in comparison to the prior year ended. Calculation details are shown in the schedule attached to this report.

Liquidity Ratios

Current Ratio: This ratio is used to provide a picture of the Municipality's ability to pay back its short-term liabilities (debt and payables) with its short-term assets (cash, receivables). The higher the current ratio, the more capable the Municipality is of paying its obligations. A ratio under 1 suggests that the Municipality would be unable to pay off its obligations if they came due at that point in time.

The Ministry of Municipal Affairs and Housing (MMAH) evaluates this ratio as a sustainability indicator and identifies a ratio of greater than 0.5:1 as low risk, while most commercial banks call for a current ratio of no less than 1:1 or 1.25:1 as part of the banking covenants.

	2022	2021	2020	2019
Current Ratio (ratio of current assets to current liabilities)	7.07:1	10.19:1	8.19:1	6.23:1

The Municipality's Current Ratio and cash liquidity has decreased from 2021 and sits at a 7.07 to 1 ability to pay off all short-term debts. This has occurred as large construction projects are being financed with internal cash flows, such as the Denis St. Pierre Treatment Plant Expansion.

It is important to note that some of the short-term assets (cash) are restricted for the purpose of future capital replacement.

The ratio is at an acceptable level and corrective action is not needed at this time.

Taxes Receivable as a Percentage of Total Tax Revenue: This ratio is used to determine how much of the Municipality's taxation revenue remains uncollected at year end. Uncollected tax revenues negatively affect the Municipality's cash flow, though the negative impact is offset through the application of interest and penalty charges on the tax arrears.

	2022	2021	2020	2019
Taxes Receivable as a Percentage of Total Tax Revenue	7.57%	7.01%	9.33%	9.97%

The amount of taxes receivable, as a percentage of total tax revenue, has increased from the prior year. This ratio is a key indicator for both the Municipality's banking services provider and MMAH, which identifies 'low' risk as a factor of less than ten (10) percent.

Administration has been working for a number of years through collection efforts to reduce and maintain this number below 10%, as that target is viewed as a favourable by the MMAH.

Under the *Municipal Act, 2001* (Section 373), municipalities are provided with the authority to register a tax arrears certificate against a property that is two years in arrears. Lakeshore practice changed to this in 2022 as allowed under the Act.

The ratio reflects a negative trend in terms of increased taxes receivable ratio at year end, however the trend is more to do with the economic stresses on our ratepayers versus the procedures and efforts of Administration.

Total Accounts Receivable as a Percentage of Total Revenue: This ratio reflects how much of the total revenue remains uncollected at year end. Uncollected revenues negatively affect the Municipality's cash flow.

	2022	2021	2020	2019
Accounts Receivable as a Percentage of Total Revenue	24.73%	21.01%	22.78%	24.38%

The ratio reflects a negative trend due to an overall increase of accounts receivable in all areas (taxes, trade, water and drainage); the increase is related to Harmonized Sales Tax credits outstanding at year-end due to progress billings on substantial construction projects. Administration expects the ratios to improve at the conclusion of these projects.

Currently 24.73% of all annual revenue remains uncollected at year end.

The ratio reflects a negative trend; however, no corrective action is needed at this time.

Total Accounts Receivable over Accounts Payable (use of operating cash flow): This shows the amount of cash flow that the Municipality is financing at year end by comparing the amount of Accounts Receivable in relation to Accounts Payable.

Accounts Receivables over Accounts Payable	2022	2021	2020	2019
Total Accounts Receivable	\$16,406,235	\$12,933,553	\$13,749,467	\$14,394,895
Total Accounts Payable	\$14,303,853	\$10,183,863	\$11,434,340	\$12,321,408
Use of Operating Cash Flow	\$2,102,382	\$2,749,690	\$2,315,127	\$2,073,487

Administration is committed to efforts to reduce accounts receivable and improve cash flow for the Municipality. Items such as local improvements and drainage works, which the Municipality finances for residents over long periods of time, place additional pressure on total accounts receivable and cash-flow.

In 2022, the increase in accounts receivable and the timing of large construction invoices included in accounts payable at year end created a timing difference that was favourable to the Municipality's cash-flow and shows a positive trend from the prior year. Administration will continue to review opportunities to optimize cash-flow going forward.

Financial Leverage Ratios

Total Long-term Debt to Long-term Assets: is defined as the ratio of total long-term debt to total assets, expressed as a percentage, and can be interpreted as the proportion of the Municipality's assets that are financed by debt. The higher this ratio, the greater the Municipality's financial risk.

Long-term Debt to Long-term Assets (Cost)	2022	2021	2020	2019
Total Long-term Debt	\$22,346,950	\$24,942,522	\$27,551,544	\$30,002,216
Total Tangible Capital Assets (Cost)	\$573,342,608	\$533,977,826	\$523,978,500	\$499,176,667
Debt as a Percentage of Assets (Cost)	3.90%	4.67%	5.26%	6.01%

The above ratio indicates that 3.90 % of the original asset cost (Cost) of the Municipality's total tangible capital assets is funded by debt.

Long-term Debt to Long-term Assets (NBV)	2022	2021	2020	2019
Total Long-term Debt	\$22,346,950	\$24,942,522	\$27,551,544	\$30,002,216
Total Tangible Capital Assets NBV*	\$381,027,081	\$352,046,166	\$351,088,481	\$336,800,497
Debt as a Percentage of Assets NBV*	5.86%	7.09%	7.85%	8.91%

*NBV (Net Book Value): The net value of an asset which is equal to its original cost (its book value) minus accumulated amortization.

The above ratio indicates that 5.86% of the net book value (depreciated value) of the Municipality's total tangible capital assets is funded by debt.

The Municipality has seen improvement and reduction in both ratios, which reflects decreasing debt levels and increasing asset values, as legacy assets are replaced, and new assets are added.

The trends for these ratios are positive and Administration will continue to review opportunities to enhance the Municipality's financial sustainability by reducing its reliance on long-term debt and reserve planning into the future.

Total Long-term Debt to Equity: This ratio indicates what proportions of equity and debt the Municipality is using to finance its assets. A high ratio usually indicates a higher degree of business risk because the entity must meet principal and interest payments on its obligations.

Long-term Debt to Equity	2022	2021	2020	2019
Total Long-term Debt	\$22,346,950	\$24,942,522	\$27,379,756	\$30,002,216
Accumulated Surplus (Equity)	\$431,057,912	\$403,638,264	\$389,768,084	\$363,562,377
Debt as a Percentage of Accumulated Surplus	5.18%	6.18%	7.07%	8.25%

This ratio reflects a positive trend as it indicates that the total debt has decreased as compared to total municipal equity position.

This positive trend is an indicator that the current funding models are improving the Municipality's financial stability; however, there is still work to be done. Administration will continue to review opportunities to further reduce the Municipality's reliance on long-term debt for large capital projects like the Denis St. Pierre Pollution Control Plant expansion. With a goal to increase reserve and reserve fund balances to support asset management through a strategy to reduce future debt loads and maintain desired service levels.

Other Financial Management Considerations

Annual Repayment Limit (ARL): is a long-term borrowing limit calculated based on 25% of certain annual revenues or receipts, less most ongoing annual long-term debt service costs (and similarly less most annual payments for other long-term financial obligations). The calculation of the Municipality's Annual Repayment Limit (ARL) is based on data contained in the municipal Financial Information Return (FIR), as submitted to MMAH.

The Debt and Financial Obligation Limits regulation places a limit on how much a municipality can commit to principal and interest payments relating to debt and financial obligations, without first obtaining approval from the Ontario Municipal Board.

Annual Repayment Limit	2022	2021	2020	2019
Total Revenue for ARL	\$64,654,977	\$59,490,967	\$57,342,378	\$55,260,783
25% of Revenue (Debt Limit) (maximum allowed)	\$16,163,744	\$14,872,742	\$14,335,595	\$ 13,815,196
Actual Principal and Interest Payments	\$3,311,625	\$3,404,197	\$3,582,704	\$ 3,613,872

Additional Room	\$12,852,119	\$11,468,545	\$ 10,752,891	\$ 10,201,324
Percentage of Revenue applied to Debt Repayment	5.1%	5.7%	6.2%	6.5%

At 5.0%, the Municipality is within the maximum ARL for debt service (25%); no corrective action is required at this time.

MMAH considers this ratio a financial flexibility indicator and identifies 'low' risk as a factor of less than five (5) percent. Lakeshore has achieved a 'low' risk rating on this indicator; however it is anticipated that once the debt for the Denis St. Pierre is finalized Lakeshore will return to moderate risk, given the extent of financing required to fund that project.

The following is a rounded estimated cost of Lakeshore's ability to take on debt up to the maximum ARL of 25%. It should be noted that this is not advisable and Lakeshore Long Term Debt Policy has a limit of 15% only to be exceeded under extraordinary circumstances.

Annual Repayment Limit	2022	2021	2020	2019
Maximum Debt Room Estimated at 6% Interest on a 20 Year Debenture	\$145,000,000	\$130,000,000	\$120,000,000	\$115,000,000
Less: Amount Approved for Denis St Pierre Loan	\$45,000,000	\$45,000,000	\$Nil	\$ Nil
Total Available Borrowing Capacity	\$100,000,000	\$85,000,000	\$120,000,000	\$ 115,000,000

Others Consulted

Financial Impacts

In support of the key strategic goal of ensuring financial sustainability through a future long-term financial plan and maintenance of adequate reserves, Administration will continue to review opportunities to further reduce the Municipality's reliance on long-term debt and to increase reserve and reserve fund balances to support asset management to achieve and maintain the desired service levels for the Municipality.

Positive trends in debt reduction and improved financial stability are being observed with the results of 2022. No significant corrective actions are recommended at this time.

Attachments

Appendix A - 2022 Year End Financial Indicators

Report Approval Details

Document Title:	2022 Year-End Financial Ratio and Indicators.docx
Attachments:	- 2022 Year End Financial Ratios and Indicators.pdf
Final Approval Date:	Aug 23, 2024

This report and all of its attachments were approved and signed as outlined below:

Prepared and Submitted by Justin Rousseau and Kate Rowe

Approved by the Corporate Leadership Team