

To: Corporate and Finance Services Committee

From: Stephanie Sinnott, Commissioner,
Corporate and Finance Services Department

Report Number: CF-23-38

Date of Report: May 3, 2023

Date of Meeting: May 8, 2023

Subject: 2022 BMA Study Overview

Ward: All Wards

File: 03-05

1.0 Purpose

The purpose of this report is to provide an overview of the 2022 BMA Study and how the City's financial benchmarks are trending relative to other municipalities.

2.0 Recommendation

That the Corporate and Finance Services Committee recommend to City Council:

That Report CF-23-38 dated May 3, 2023, 2022 BMA Study Overview be received for information.

3.0 Executive Summary

Not applicable

4.0 Input From Other Sources

BMA Management Consulting Inc.

5.0 Analysis

An annual study of municipal financial operating results and other metrics for a number of Ontario municipalities is prepared by BMA Management Consulting Inc. (BMA). A comparison of the study's results provides municipalities with data to assess their operations, identify areas of opportunity and identify areas of best practice.

5.1 Background

The City of Oshawa participates in the annual BMA Study for the purpose of benchmarking against comparator municipalities and to analyze the City's financial performance trends over time.

The BMA Study collects various data and financial information from a number of Ontario municipalities (upper, lower and single tier). BMA analyses the information from a number of different perspectives and summarizes the information in an annual report.

The annual report contains a number of socio-economic and financial indicators.

Socio-economic indicators are designed to 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 demand for services.

Key financial indicators help evaluate a municipalities existing financial condition and identify areas of opportunity which are utilized to align strategies with comparator municipalities and areas of best practices.

It should be noted that the financial information is obtained from different accounting systems which may use different methods of collecting information and allocating costs. Much of the information allows for fair comparisons, however other costs, can be impacted by differing organizational structure, allocations methods for fixed costs and even differences in climate across the municipalities. Aside from the potential differences in reporting, comparing the City's data with other municipalities is an exercise that is undertaken on a regular basis.

The 2022 BMA Study is over 500 pages in length. An electronic copy of the BMA study is available to all members of Council upon request.

5.2 Sampling Information

The 2022 BMA Study compared 117 municipalities across Ontario in a number of benchmarking categories, however some municipalities did not provide fulsome information and were excluded from the City's review of comparable municipalities.

Of the 117 municipalities:

- 32 had a population of less than 15,000
- 27 had a population between 15,000 – 29,999
- 30 had a population between 30,000 – 99,999
- 28 had a population greater than 100,000

5.3 Socio-Economic Indicators

Socio-Economic Indicators describe and quantify a municipality's wealth and economic conditions. 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.

There are several socio-economic indicators outlined in the BMA Study including population statistics, age demographics, household income, labour statistics, and various indicators related to property tax assessment.

5.4 Key Financial Indicators

The objective of providing an evaluation of a municipality's financial condition is to evaluate a municipality's financial outlook and performance to support long-term financial planning.

Industry recognized indicators used by credit rating agencies, and/or recommended by Government Finance Officers Association (GFOA) and the Ministry of Municipal Affairs and Housing (MMAH) are included in the BMA Study. The key financial indicators are classified as shown in Tables 1, 2, and 3.

- Sustainability is the ability to provide and maintain service and infrastructure levels without resorting to unplanned increases in rates or cuts to services. Sustainability indicators include ratios such as financial position per capita, tax asset consumption ratio and, net financial liabilities ratio.

Table 1

2021 Sustainability Indicators	Oshawa	Total Study Average
Financial Position per Capita	\$469	\$923
Tax Asset Consumption Ratio	44.4%	44.3%
Net Financial Liabilities Ratio	(0.5)	(0.65)

The Net Financial Position per Capita indicator is a broader measure of a municipality's indebtedness. While below the total Study average, Oshawa's financial positions per capital has shown steady improvements from 2015. The indicator in 2015 was (\$272) compared to \$469 in 2021.

The Asset Consumption Ratio provides an estimate of the useful life left in the municipality’s capital assets. It is important for municipalities to be informed of the age and condition of its capital assets to ensure they are making timely and appropriate investments. The MMAH considers a ratio of 25% or under to be relatively new; 26% - 50% to be moderately new; 51% - 75% to be moderately old and over 75% to be old. Using this scale, Oshawa’s ratio of 44.4% would indicate that the City’s capital assets are moderately new.

Net Financial Liabilities Ratio indicates the extent to which financial liabilities could be met by its operating revenue. A ratio greater than zero indicates that total liabilities exceed the total assets. Similar to the other indicators, this ratio has improved from 0.26 in 2015 to (0.5) in 2021.

- Vulnerability addresses a municipality’s vulnerability to external sources of funding that it cannot control and its exposure to risk.

Table 2

2021 Vulnerability Indicators	Oshawa	Total Study Average
<u>Reserves</u>		
Tax Discretionary Reserves as % of Taxation	87.5%	93.9%
Tax Reserves as % of Own Source Revenues	71.9%	72.5%
Tax Reserves / Capita	\$675	\$978
<u>Debt</u>		
Tax Debt Interest as % of Own Source Revenues	1.3%	1.0%
Debt Charges as % of Own Source Revenues	6.0%	3.8%
Tax Debt Outstanding / Capita	\$265	\$475
Debt Outstanding per Own Source Revenue	28.3%	35.8%
Debt to Reserve Ratio	0.4	0.6

Reserve Indicators:

The first indicator related to reserves, Tax Discretionary Reserves as a Percentage of Taxation, provides the total tax discretionary reserves and reserve funds in relation to total taxation. Oshawa’s indicator has improved from 46% in 2015 to 87.5% in 2021.

Tax Reserves as % of Own Source Revenue shows the total value of funds held in reserves and reserve funds compared to a single year’s own source revenue and is a strong indicator of financial stability.

The Tax Reserves per Capita indicator provides the total tax discretionary reserves in relation to the population. In 2015, this indicator for Oshawa was \$347 compared to \$675 in 2021.

Debt Indicators:

The Tax Debt Interest as a Percentage of Own Source Revenues ratio indicates the extent to which the municipality's own source revenues are committed to debt interest charges. This percentage has decreased from 2.1% in 2015 to 1.3% in 2021.

Tax Debt Charges as a Percentage of Own Source Revenues (Debt Service Ratio) is 6.0%, down slightly from 6.2% in 2020. Debt Service is the amount of principal and interest that a municipality must pay each year to service the debt. As debt service increases, it reduces expenditure flexibility.

The Tax Debt Outstanding per Capita indicator provides the debt outstanding divided by the population. In 2021, the City's indicator was \$265, down from \$327 in 2021.

Debt Outstanding per Own Source Revenue provides the debt outstanding divided by the municipality's own source revenues and is 28.3%, down from 34.3% in 2021.

The Debt to Reserve Ratio has steadily decreased from 1.5 in 2015 to 0.4 in 2021.

- Flexibility looks at a municipality's ability to issue debt responsibly without impacting the credit rating. It also looks at the ability to generate required revenues.

Table 3

2021 Flexibility Indicators	Oshawa	Total Study Average
Taxes Receivable as % of Taxes Levied	2.7%	5.9%
Rates Coverage Ratio	97.7%	90.7%

The Taxes Receivables as a Percentage of Taxes Levied ratio is a strong indicator of the strength of a local economy and the ability of residents to pay their annual property taxes. If this percentage increases over time, it may indicate a decline in the municipality's economic health. Oshawa's ratio has remained steady over the last 5 years and is the second lowest ratio in this category.

The Rates Coverage Ratio provides a measure of the municipality's' ability to cover its costs through its own sources of revenue.

6.0 Financial Implications

The 2022 BMA Study is based on the data contained in the 2021 Financial Information Return. Generally, the results indicate that the City's financial operations have been steadily improving over recent years.

The principles adopted to guide the City's financial performance are sound and have been effective as demonstrated through the outcomes. The principles include:

- Paying Down Debt
- Building Reserve Funds
- Investing in Infrastructure
- Responsible and Affordable Taxation

7.0 Relationship to the Oshawa Strategic Plan

Reviewing the BMA Study will advance the Oshawa Strategic Plan goals of Economic Prosperity & Financial Stewardship and Accountable Leadership by providing proactive and responsible financial management while ensuring respect and transparency.



Stephanie Sinnott, Commissioner,
Corporate and Finance Services Department