

To: Finance Committee

From: Stephanie Sinnott, Commissioner,
Finance Services

Report Number: FIN-22-29

Date of Report: March 16, 2022

Date of Meeting: March 21, 2022

Subject: 2021 BMA Study Overview

Ward: All Wards

File: 03-05

1.0 Purpose

During Council deliberations in 2015 related to the approval of an updated Financial Strategy, Council expressed a desire to work toward improving the City's metrics from the BMA Study in relationship to comparator municipalities.

The purpose of this report is to provide an overview of the 2021 BMA Study and how the City's financial benchmarks are trending compared to other municipalities.

2.0 Recommendation

That the Finance Committee recommend to City Council:

That Report FIN-22-29 dated March 16, 2022, 2021 BMA Study Overview be received for information.

3.0 Executive Summary

A study of municipal operating results for a large number of Ontario municipalities is completed each year by BMA Management Consulting Inc. ("BMA"). A comparison of these results provides municipality's data to assess their operations, identify areas of opportunity and identify areas of best practice.

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

The 2021 BMA Survey is based on the data contained in the 2020 Financial Information Return. Generally, the results indicate that the City's financial operations have been steadily improving over the last 5 years.

4.0 Input From Other Sources

BMA Management Consulting Inc.

5.0 Analysis

5.1 Background

Annually, the City participates in a survey conducted by BMA that collects various data and financial information from a number of Ontario municipalities (upper, lower and single tier). BMA analyzes the information from a number of different perspectives and summarizes the information in the 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 municipality's existing financial condition and identify areas of opportunity which are utilized to establish alignment strategies with comparator municipalities and areas of best practice.

It should be noted that the financial information is obtained from different accounting systems and may use different methods of collecting information and allocating costs. Much of the information allows for fair comparisons (such as funding contributions to Libraries), other costs, such as winter control costs, are impacted by differing organizational structures, allocation methods for fixed costs and even climate differences 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 2021 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 2021 BMA Study compared 114 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 114 municipalities:

- 33 had a population of less than 15,000
- 23 were between 15,000 – 29,999

- 31 were between 30,000 – 99,999
- 27 had a population greater than 100,000.

5.3 Socio-Economic Indicators

As mentioned, 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 help form the foundation for the establishment of a long range financial plan.

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 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, net financial liabilities ratio and asset consumption ratio.

Table 1

2020 Sustainability Indicators	Oshawa	Total Survey Average
Financial Position per Capita	\$373	\$848
Tax Asset Consumption Ratio	44.0%	43.9%
Net Financial Liabilities Ratio	(0.40)	(0.60)

The net financial position per capita indicator is a broader measure of a municipality's indebtedness. While still below the total survey average, Oshawa's financial position per capita has shown steady improvement from 2015. The indicator in 2015 was (\$272) compared to 2020 of \$373.

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 investment. The Ministry of Municipal Affairs and Housing 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 44.0% 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, since 2015 this ratio has improved from 0.26 to (0.40) in 2020.

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

Table 2

2020 Vulnerability Indicators	Oshawa	Total Survey Average
Taxes Receivable as % of Taxes Levied	3.1%	6.2%
Rates Coverage Ratio	105.3%	91.8%

The Taxes Receivable 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 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.

- Flexibility is the ability to issue debt responsibly without impacting the credit rating. Also the ability to generate required revenues. There are 9 flexibility indicators which are related to reserves and debt.

Table 3

2020 Flexibility Indicators	Oshawa	Total Survey Average
<u>Reserves</u>		
Tax Reserves as % of Taxation	74.0%	88.7%
Tax Reserves as % of Own Source Revenues	65.2%	69.8%
Tax Reserves / Capita	\$622	\$912
<u>Debt</u>		
Tax Debt Interest as % of Own Source Revenues	1.6%	1.1%
Debt Charges as % of Own Source Revenues	6.2%	4.2%
Tax Debt Outstanding / Capita	\$327	\$457
Debt Outstanding per Own Source Revenue	34.3%	37.1%
Debt to Reserve Ratio	0.5	0.7

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 74% in 2020.

Tax Reserves as a Percentage of Own Source Revenues provides the total tax discretionary reserves in relation to the population. Oshawa's indicator has improved from 33% in 2015 to 65% in 2020.

The Tax Reserves per Capita indicator 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. In 2015, this indicator for Oshawa was \$347 compared to \$622 in 2020.

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 1.6% in 2020.

Tax Debt Charges as a Percentage of Own Source Revenues (Debt Service Ratio) is 6.2% which is relatively high when compared to the other survey respondents. 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 / Capita indicator provides the debt outstanding as divided by the population and is \$327.

Debt Outstanding per Own Source Revenue This provides the debt outstanding divided by the municipality's own source revenues and is 34.3%.

The Debt to Reserve Ratio has steadily decreased from 2015 at 1.5 to 0.5 in 2020.

6.0 Financial Implications

The 2021 BMA Survey is based on the data contained in the 2020 Financial Information Return. Generally, the results indicate that the City's financial operations have been steadily improving over the last 5 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 following strategic goals in the Oshawa Strategic Plan:

- Economic Prosperity and Financial Stewardship – Ensure economic growth and a sound financial future specifically through the development, implementation and maintenance of a proactive and sustainable Council-endorsed Financial Strategy; and
- Accountable Leadership – Ensure respect, responsiveness and transparency.



Stephanie Sinnott, Commissioner,
Finance Services