

## Municipality of Chatham-Kent

### Finance, Budget, & Information Technology and Transformation

#### Information Report

**To:** Mayor and Members of Council

**From:** Matt Torrance, MBA, CPA, CGA  
Director, Financial Services

**Date:** January 4, 2022

**Subject:** 2020 Financial Indicator Review

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This report is for the information of Council.

#### **Background**

Whereas Council has indicated Financial Sustainability as a Critical Success Factor. Based on the 2020 Financial Information Return (FIR), the Ministry of Municipal Affairs and Housing (MMAH) has provided us with a document benchmarking Chatham-Kent's sustainability and flexibility against those of other South-Single Tier municipalities.

Sustainability 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.

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. 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.

#### **Comments**

The MMAH provides a range for all indicators identifying the levels of risk as either low, moderate, or high. Additionally, we have been provided the median and average values for South-Single Tier municipalities.

The report provided by the MMAH is attached as Appendix A.

Benchmarking to South-Single Tier municipalities and levels of risk for the period of 2016-2020 is attached as Appendix B.

**Sustainability Indicators:****Total Taxes Receivable less Allowance for Uncollectible as a % of Total Taxes Levied**

Taxes Receivable is the amount of outstanding taxes owed to the municipality (also known as tax arrears). High taxes receivable may reflect the inability of residents to pay their taxes or it could indicate problems with the municipality's tax collection procedures. High outstanding taxes could create cash flow problems for the municipality or result in higher tax rates to fund uncollectible taxes or tax write-offs. Chatham-Kent has a low risk value (< 10%) of 3.4% and the Average of South-Single Tier municipalities is also in the low risk range at 6.4%.

**Net Financial Assets or Net Debt as % of Own Source Revenues**

Net Financial Assets (Debt) represents total financial assets less liabilities on a municipality's balance sheet. A positive number indicates the amount of resources that may be available for future needs. A negative number indicates how much of the future revenue may be needed to pay for past spending decisions. Chatham-Kent has a low risk value (> -50%) of +79.2% and the Average of South-Single Tier municipalities is also in the low risk range at -8.0%.

According to the Financial Indicator benchmarking document provided by the MMAH to achieve low risk valuation on this financial indicator, a municipality must have Net financial position greater than -50%. In other words, their liabilities cannot exceed their assets to the extent that this debt is greater than an amount equal to 50% of their annual own source revenue (income not from other levels of government).

Chatham-Kent's Net financial position is a Net Asset position of +79.2% which means our assets exceed our liabilities by an amount equal to +79.2% of our annual own source revenue.

Our significant Net Financial Asset position is directly related to our mandated asset management plan obligations. Our planned 5 year capital expenditures paid for via reserve dollars will significantly decrease our Net financial position which will bring us closer to the South-Single Tier municipal average.

**Total Reserves and Discretionary Reserve Funds as a % of Municipal Expenses**

Indicates the ability to offset unexpected revenue losses or increases in expenses. Chatham-Kent has a low risk (> 20%) value of 59.2% and the Average of South-Single Tier municipalities is also in the low risk range at 55.2%.

**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. Chatham-Kent has a low risk (> 0.5:1) value of 3.88:1 and the Average of South-Single Tier municipalities is also at the low risk range at 2.3:1.

**Flexibility Indicators:****Debt Servicing Cost as a % of Total Revenues (Less Donated TCAs)**

Debt servicing indicates how much of each dollar raised in revenue is spent paying down existing debt (both principal and interest). This indicator shows the extent to which past borrowing decisions may impact the current municipal budget. Chatham-Kent has a low risk (< 5%) value of 3.2% and the Average of South-Single Tier municipalities is also in the low risk range at 5.1%.

**Closing Amortization Balance as a % of Total Cost of Capital Assets (Asset Consumption Ratio)**

This measure is also known as the asset consumption ratio. It indicates how much of the life expectancy of municipal capital assets have been consumed by comparing accumulated amortization of all assets to the gross cost of those assets. A high asset consumption ratio indicates aging assets. Chatham-Kent has a low risk (< 50%) value of 49.9% and the Average of South-Single Tier municipalities is also in the low risk range at 45.2%. It bears mentioning that although Chatham-Kent is in the low risk range, we are close to advancing into moderate risk range of (50% to 75%).

**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 (i.e. reserves, debt repayment etc.). Chatham-Kent has a low risk (> -1%) value of 20.3% and the Average of South-Single Tier municipalities is also in the low risk range at 17.6%.

**Financial Implications**

There are no financial implications of this report.

Prepared by:

Review by:

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Financial Analyst

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Manager, Corporate Accounting

Reviewed by:

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Gord Quinton, MBA, CPA, CGA  
Chief Financial Officer, Treasurer

Attachments: Appendix A – MMAH report  
Appendix B – Benchmarking

## FINANCIAL INDICATOR REVIEW

(Based on 2020 Financial Information Return)

## Chatham-Kent M

Date Prepared:	4-Nov-21	2020 Households:	48,175	Median Household Income:	58,264
MSO Office:	Western	2020 Population:	102,042	Taxable Residential Assessment as a	
Prepared By:	Lisa Harvey	2021 MFCI Index:	7.0	% of Total Taxable Assessment:	70.5%
Tier:	ST			Own Purpose Taxation:	160,783,222

## SUSTAINABILITY INDICATORS

Indicator	Ranges	Actuals	South - Single Tiers		Level of Risk	
			Median	Average		
Total Taxes Receivable less Allowance for Uncollectibles as a % of Total Taxes Levied	Low: < 10% Mod: 10% to 15% High: > 15%	2016	4.8%	5.9%	6.9%	LOW
		2017	5.0%	5.9%	6.5%	LOW
		2018	2.6%	5.7%	6.1%	LOW
		2019	1.7%	5.1%	5.4%	LOW
		2020	3.4%	6.0%	6.4%	LOW
Net Financial Assets or Net Debt as % of Own Source Revenues	Low: > -50% Mod: -50% to -100% High: < -100%	2016	31.8%	-8.2%	-10.9%	LOW
		2017	40.3%	-3.9%	-8.0%	LOW
		2018	54.1%	7.5%	-5.0%	LOW
		2019	61.5%	-1.2%	-1.5%	LOW
		2020	79.2%	-14.6%	-8.0%	LOW
Total Reserves and Discretionary Reserve Funds as a % of Municipal Expenses	Low: > 20% Mod: 10% to 20% High: < 10%	2016	45.4%	40.8%	41.7%	LOW
		2017	47.3%	41.1%	42.7%	LOW
		2018	52.4%	42.3%	45.2%	LOW
		2019	52.4%	46.7%	47.9%	LOW
		2020	59.2%	56.3%	55.2%	LOW
Cash Ratio (Total Cash and Cash Equivalents as a % of Current Liabilities)	Low: > 0.5:1 Mod: 0.5:1 to 0.25:1 High: < 0.25:1	2016	4.05:1	1.59:1	1.63:1	LOW
		2017	3.36:1	1.22:1	1.72:1	LOW
		2018	3.6:1	1.22:1	1.87:1	LOW
		2019	3.88:1	1.4:1	2.13:1	LOW
		2020	3.88:1	1.85:1	2.3:1	LOW

## FLEXIBILITY INDICATORS

Debt Servicing Cost as a % of Total Revenues (Less Donated TCAs)	Low: < 5% Mod: 5% to 10% High: >10%	2016	4.3%	5.0%	4.6%	LOW
		2017	3.7%	5.1%	4.8%	LOW
		2018	3.7%	5.0%	4.8%	LOW
		2019	3.5%	4.9%	4.7%	LOW
		2020	3.2%	4.7%	5.1%	LOW
Closing Amortization Balance as a % of Total Cost of Capital Assets (Asset Consumption Ratio)	Low: < 50% Mod: 50% to 75% High: > 75%	2016	47.4%	40.2%	41.2%	LOW
		2017	47.9%	41.0%	41.8%	LOW
		2018	49.2%	42.1%	41.9%	LOW
		2019	48.7%	43.1%	42.4%	LOW
		2020	49.9%	44.0%	45.2%	LOW
Annual Surplus / (Deficit) as a % of Own Source Revenues	Low: > -1% Mod: -1% to -30% High: < -30%	2016	10.4%	10.5%	10.2%	LOW
		2017	20.0%	13.1%	13.3%	LOW
		2018	23.0%	13.8%	14.8%	LOW
		2019	17.0%	13.9%	13.2%	LOW
		2020	20.3%	18.6%	17.6%	LOW

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 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.  
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# FINANCIAL INDICATOR REVIEW

(Based on 2020 Financial Information Return)

## Chatham-Kent M

### 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.

#### ***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 % of 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 (MFICI)** 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 MFICI 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 MFICI corresponds to relatively positive fiscal circumstances, whereas a higher MFICI corresponds to more challenging fiscal circumstances. (Note: the MFICI index is only available for northern and rural municipalities)

# FINANCIAL INDICATOR REVIEW

(Based on 2020 Financial Information Return)

## Chatham-Kent M

### 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)

$(SLC\ 74\ 3099\ 01 + SLC\ 74\ 3099\ 02) / (SLC\ 10\ 9910\ 01 - SLC\ 10\ 1831\ 01)$

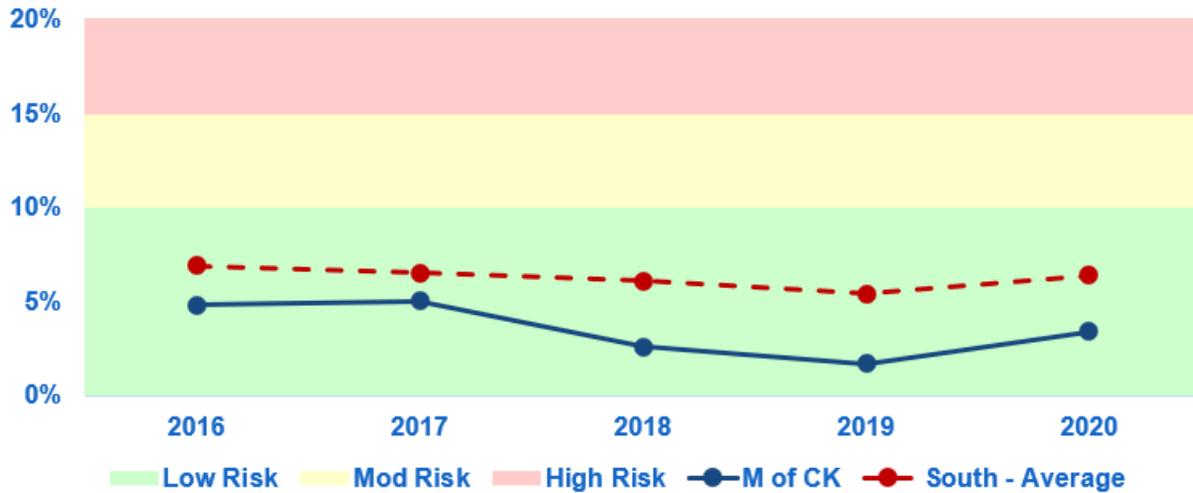
Closing Amortization Balance as a % of Total Cost of Capital Assets (Asset Consumption Ratio)

$SLC\ 51\ 9910\ 10 / SLC\ 51\ 9910\ 06$

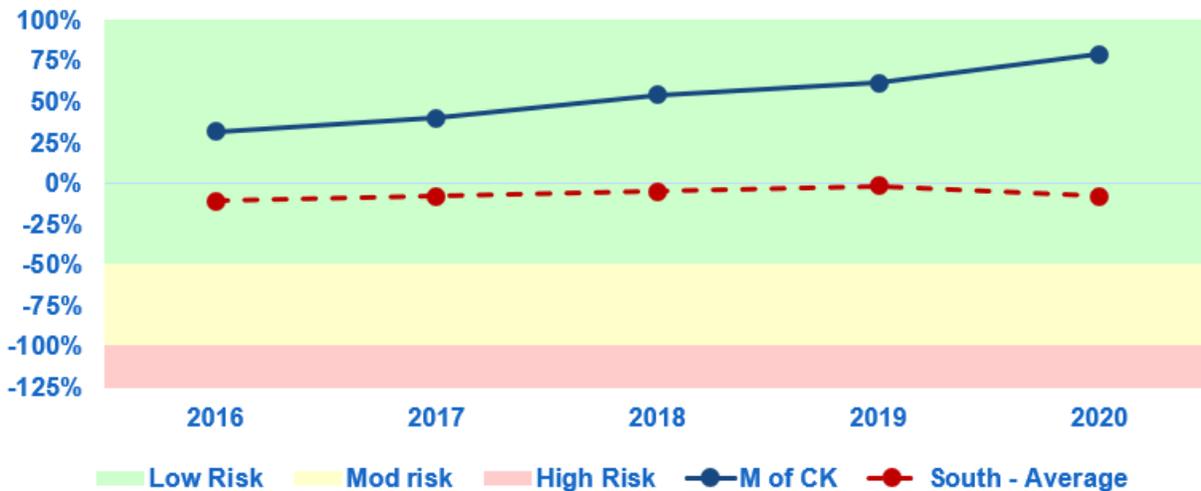
Annual Surplus / (Deficit) (Less Donated TCAs) as a % of Own Source Revenues

$(SLC\ 10\ 2099\ 01 - SLC\ 10\ 1831\ 01) / (SLC\ 10\ 9910\ 01 - SLC\ 10\ 0699\ 01 - SLC\ 10\ 0899\ 01 - SLC\ 10\ 1098\ 01 - SLC\ 10\ 1099\ 01 - SLC\ 10\ 1811\ 01 - SLC\ 10\ 1812\ 01 - SLC\ 10\ 1813\ 01 - SLC\ 10\ 1814\ 01 - SLC\ 10\ 1830\ 01 - SLC\ 10\ 1831\ 01 - SLC\ 12\ 1850\ 04)$

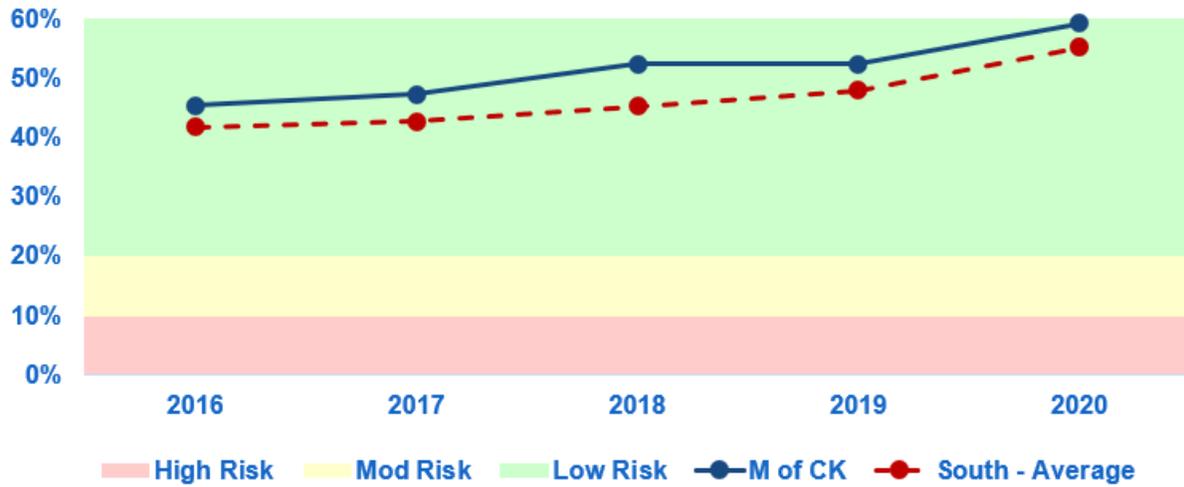
### Total Taxes Receivable less Allowance for Uncollectible as a % of Total Taxes Levied



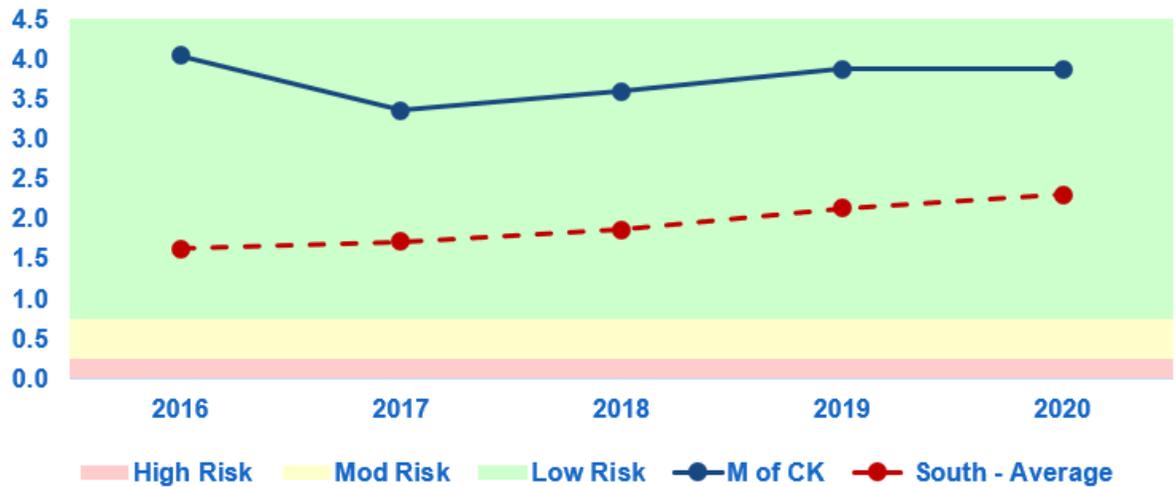
### Net Financial Assets or Net Debt as a % of Own Source Revenues



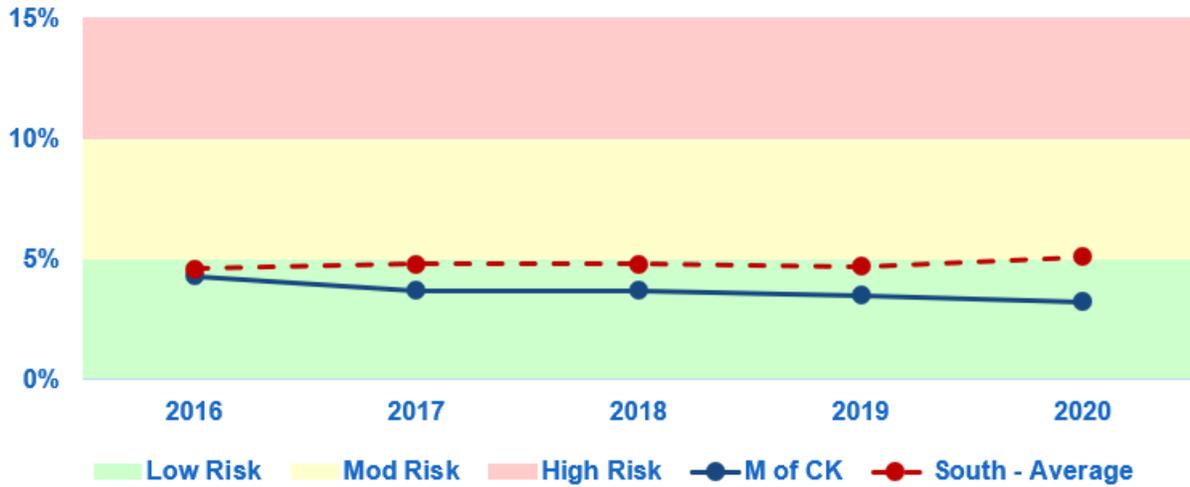
### Total Reserves and Discretionary Reserve Funds as a % of Municipal Expenses



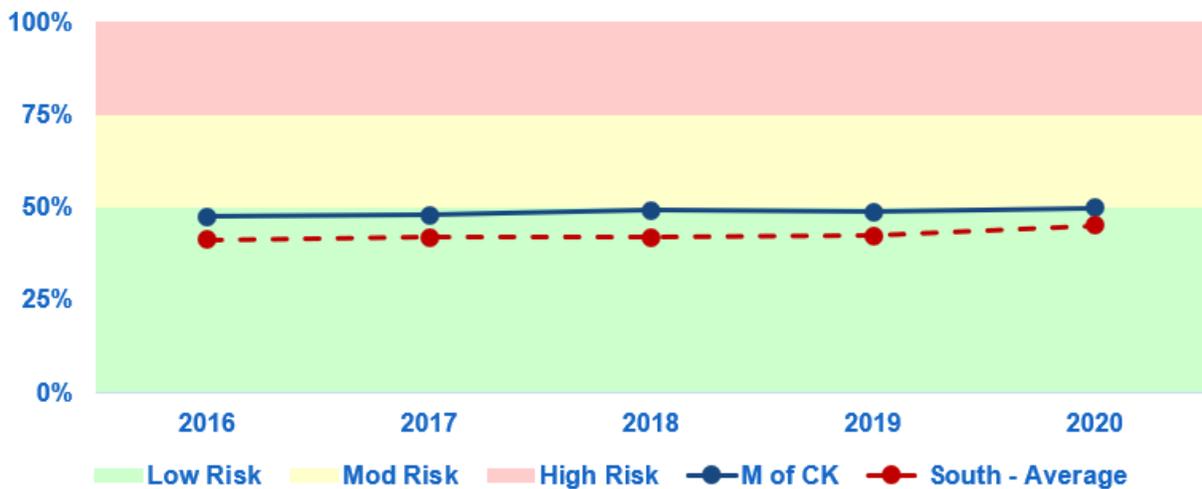
### Cash Ratio (Total Cash and Cash Equivalents as a % of Current Liabilities)



### Debt Servicing Cost as a % of Total Revenues (Less Donated TCAs)



### Closing Amortization Balance as a % of Total Cost of Capital Assets (Asset Consumption Ratio)



### Annual Surplus / (Deficit) as a % of Own Source Revenues

