Municipal Finance Overview

Asset Management Symposium
March 25, 2015
Agenda

• Overview of our sector
  – Local government is big business
  – But: Lots of variation (one size does NOT fit all)

• Lots of local issues

• Some overarching issues

• Some facts about assets

• Financial challenge: How to pay for it all?

• What you should do?

• What we are doing?
Local Gov’t is Big Business

- $39 billion in expenses
- $128.3 billion in TCAs (2013 closing NBV).
- Approx. 233,917 municipal employees (full, part, seasonal)
- Plus another 241,304 employees of ABCs (full, part, seasonal)
- Over 837,000 construction contracts awarded worth $3.2 billion. Over 160,000 > $100,000
- In 2013, almost 170,000 building permits issued worth $32 billion
- Over 13 million customers
- Multiple business lines
Big Business (con’t)

• $24.6 billion in property taxes raised
• $18.1 billion for municipal purposes (including PILs)
  – Just a bit behind sales tax for Ontario ($20.9 B) and income tax ($25.6 B) in 2012-2013
• $8.7 billion in user fees
  – Transit, water/wastewater, recreation
Municipalities not all the same

• 444 municipalities
• Huge variation with respect to:
  – Population
  – Area
  – Own source revenues
  – Financial management
  – Amount of assets
    • Condition and age of assets
    • Timing of major works
Ontario’s Population

Municipalities by Population Range
Growth Forecast

Population Share (%): 1986-2036

- GTA
- Central
- East
- Southwest
- Northeast
- Northwest

1986 vs 2036
# Ability to raise revenue

## Distribution of Yield from 1% of the Levy by Region

<table>
<thead>
<tr>
<th>$ yield</th>
<th>NE</th>
<th>NW</th>
<th>WEST</th>
<th>EAST</th>
<th>CENTRAL</th>
<th>TOTAL</th>
<th>% of TOTAL</th>
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<td>&lt;20,000</td>
<td>74</td>
<td>20</td>
<td>11</td>
<td>24</td>
<td>3</td>
<td>132</td>
<td>32%</td>
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<tr>
<td>20k-50k</td>
<td>22</td>
<td>4</td>
<td>38</td>
<td>45</td>
<td>9</td>
<td>118</td>
<td>29%</td>
</tr>
<tr>
<td>50k-100k</td>
<td>8</td>
<td>3</td>
<td>22</td>
<td>18</td>
<td>20</td>
<td>71</td>
<td>17%</td>
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<tr>
<td>&gt;100k</td>
<td>5</td>
<td>5</td>
<td>25</td>
<td>14</td>
<td>38</td>
<td>87</td>
<td>21%</td>
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<tr>
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<td>109</td>
<td>32</td>
<td>96</td>
<td>101</td>
<td>70</td>
<td>408</td>
<td>100%</td>
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<td>CENTRAL</td>
<td>WEST</td>
<td>EAST</td>
<td>NORTHWEST</td>
<td>NORTHEAST</td>
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<td><strong>TAX AND PILS</strong></td>
<td>MAX</td>
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<td>4,882</td>
<td>5,126</td>
<td>4,745</td>
<td>6,096</td>
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<tr>
<td></td>
<td>MIN</td>
<td>783</td>
<td>788</td>
<td>447</td>
<td>720</td>
<td>681</td>
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<td>2,721</td>
<td>4,094</td>
<td>4,678</td>
<td>4,025</td>
<td>5,415</td>
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<td>1,749</td>
<td>1,579</td>
<td>2,471</td>
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<td>1,504</td>
<td>1,381</td>
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<td>2,064</td>
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<td>2,856</td>
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<td>MIN</td>
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<td>27</td>
<td>15</td>
<td>75</td>
<td>42</td>
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<td>2,841</td>
<td>3,507</td>
<td>5,052</td>
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<tr>
<td></td>
<td>AVERAGE</td>
<td>314</td>
<td>432</td>
<td>389</td>
<td>692</td>
<td>572</td>
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<td>139</td>
<td>192</td>
<td>191</td>
<td>596</td>
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<td>1,970</td>
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<td>0</td>
<td>516</td>
<td>324</td>
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<tr>
<td></td>
<td>RANGE</td>
<td>519</td>
<td>1,591</td>
<td>1,661</td>
<td>1,454</td>
<td>2,923</td>
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<tr>
<td></td>
<td>AVERAGE</td>
<td>93</td>
<td>361</td>
<td>286</td>
<td>1,008</td>
<td>983</td>
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<td></td>
<td>MEDIAN</td>
<td>28</td>
<td>256</td>
<td>254</td>
<td>952</td>
<td>922</td>
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<tr>
<td><strong>USER FEES</strong></td>
<td>MAX</td>
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<td>4,354</td>
<td>2,444</td>
<td>5,062</td>
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<td>107</td>
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<tr>
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<td>4,246</td>
<td>2,434</td>
<td>5,062</td>
<td>3,321</td>
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<td>AVERAGE</td>
<td>678</td>
<td>904</td>
<td>590</td>
<td>926</td>
<td>665</td>
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<tr>
<td></td>
<td>MEDIAN</td>
<td>560</td>
<td>842</td>
<td>347</td>
<td>764</td>
<td>414</td>
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<tr>
<td><strong>TOTAL REVENUE</strong></td>
<td>MAX</td>
<td>10,129</td>
<td>9,666</td>
<td>9,324</td>
<td>11,948</td>
<td>10,578</td>
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<tr>
<td></td>
<td>MIN</td>
<td>1,354</td>
<td>1,790</td>
<td>779</td>
<td>1,822</td>
<td>1,913</td>
<td></td>
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<tr>
<td></td>
<td>RANGE</td>
<td>8,776</td>
<td>7,876</td>
<td>8,545</td>
<td>10,125</td>
<td>8,665</td>
<td></td>
</tr>
<tr>
<td></td>
<td>AVERAGE</td>
<td>3,603</td>
<td>3,994</td>
<td>3,195</td>
<td>5,657</td>
<td>4,907</td>
<td></td>
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<tr>
<td></td>
<td>MEDIAN</td>
<td>3,185</td>
<td>3,669</td>
<td>2,534</td>
<td>5,707</td>
<td>4,576</td>
<td></td>
</tr>
<tr>
<td></td>
<td>COUNT</td>
<td>76</td>
<td>107</td>
<td>114</td>
<td>33</td>
<td>106</td>
<td></td>
</tr>
</tbody>
</table>
Lots of issues

- OMPF Reductions
- Interest Arbitration
- DSSAB Levies
- Assessment Appeals
- Mill or Industry Closures
- Infrastructure reinvestment
- Accessibility requirements
- Economic development
- Energy prices
- Wastewater upgrades
- Storm water management
- Source water protection
- Financing growth
- Tax capping
- OPP billing
- New service demands
- Inflation
- Winter road standards
- Financing the new
- Senior government funding
- Succession planning
Global Issues: LTFP and AMP

- Longer-term perspectives and evidence based decision-making increasingly important
Assets = Services

<table>
<thead>
<tr>
<th></th>
<th>Federal</th>
<th>Provincial</th>
<th>Local</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961</td>
<td>31%</td>
<td>31%</td>
<td>38%</td>
</tr>
<tr>
<td>2005</td>
<td>10%</td>
<td>22%</td>
<td>67%</td>
</tr>
</tbody>
</table>

Source: StatsCan, From Roads to Rinks, Table 1-A, Sept. 2007

• Assets matter to residents because it is the vehicle to deliver services

• Assets also matter to senior governments
Municipal Infrastructure Gap

- The municipal infrastructure gap in Ontario has been estimated at nearly $60 billion

Source: Towards a new federal long-term infrastructure plan, AMO 2012
2013 Closing NBV of TCAs

- Buildings: 23 billions
- Machinery & Equipment: 7 billions
- Vehicles: 3 billions
- Other: 1 billion
- Linear Assets: 63 billions

BILLIONS
## Consuming our assets

<table>
<thead>
<tr>
<th>Category</th>
<th>2013 Amortization</th>
<th>% share</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Government</td>
<td>254,337,707</td>
<td>5.6%</td>
</tr>
<tr>
<td>Protection</td>
<td>215,275,684</td>
<td>4.7%</td>
</tr>
<tr>
<td>Transportation</td>
<td>2,054,591,566</td>
<td>44.8%</td>
</tr>
<tr>
<td>Environmental Services</td>
<td>1,203,047,849</td>
<td>26.3%</td>
</tr>
<tr>
<td>Health</td>
<td>52,777,752</td>
<td>1.2%</td>
</tr>
<tr>
<td>Social and Family Services</td>
<td>224,905,033</td>
<td>4.9%</td>
</tr>
<tr>
<td>Social Housing</td>
<td>59,450,552</td>
<td>1.3%</td>
</tr>
<tr>
<td>Recreation and Culture</td>
<td>463,876,342</td>
<td>10.1%</td>
</tr>
<tr>
<td>Planning</td>
<td>18,168,106</td>
<td>0.4%</td>
</tr>
<tr>
<td>Other</td>
<td>36,191,450</td>
<td>0.8%</td>
</tr>
<tr>
<td>Total</td>
<td>4,582,622,041</td>
<td>100.0%</td>
</tr>
</tbody>
</table>
Some TCA facts

- $97 B in TCAs that depreciate (not land or land improvements)
- 2013 depreciation of $4.6 B
  - Transportation, environmental services, recreation
- 21 years until they are ALL worth nothing
- Construction in process in 2013 was $13.6 B
- Donated TCAs in 2013 was $1.1 B
- $3.2 B in DC reserve funds for future assets
  - Plus a $1 B from ratepayers for growth costs not covered by DCs
- Lots of assets to deal with to be sustainable
The challenge: paying for it

• Municipal budgets must pay for
  – Operations
  – Capital
    • Fix/replace old assets
    • Growth related new assets
  – To high service levels
  – Maybe new services
  – In an environment where costs are escalating

• Where do municipalities get the money they need?
All government revenue

- Municipalities have
  - 9% of revenues
  - 67% of assets
Municipal Tax in Ontario

• Property tax is about 8-9 cents on every dollar of revenue raised in Canada

• In Ontario, 30% of property tax goes to the Province for schools

• This means that about 6 cents of every dollar of tax goes to municipalities to finance all that they do
Can you pay for all of it?

• Have not met a municipality yet that does not claim to have an infrastructure deficit
• Several strategies exist for addressing funding shortfalls
  – Get the money from senior governments
    • Some will come from them, but likely not all you need
  – Reduce costs
    • Technology, ASD, shared services, LEAN exercises, etc
  – Increase revenues
    • Taxes, user fees, new revenues, investments
  – New revenue sources
What should you do?

• Don’t panic at initial AMP results
• Solutions will be long-term in nature
• AMPs and LTFPs are critical
• Sustainability requires long-term plans. *It doesn’t just happen*
• Stay the course. Continue to refine and modify your AMP and LTFP
• Be open to making financial decisions differently
Do You Have the Answers?

• Are your water rates or other user fees are fully recovering the costs of the services?
• Are your tax rates are recovering costs?
• Are your annual contributions to reserves are adequate for the purposes intended?
• What tax rate adjustments are needed to sustain current service levels or to enhance them?
• Will you know future flow of capital works expenditures you need to rehabilitate and replace your assets.
• Do you have a multi-year capital plan? Is it based on what you need or what your council thinks it can afford?
Moving to a LTFP model

Top 5 Best Practices

- Long-Term Financial Planning: 26%
- Debt Management Policy: 15%
- Multi-Year Capital Planning: 15%
- Budgeting for Results and Outcomes: 26%
- Incorporating Sustainability in Public Finance Practices: 18%
Work Underway

• Debt and Reserves
  – What is the right debt management strategy and use of reserves for your municipality?
  – Research by AMO, in concert with MFOA and a municipal partner, examining this issue

• Roads and bridges
  – AMO study evaluated the road and bridge infrastructure of 93 municipalities
  – If there was a 1% tax increase each year on the entire assessment base (of these 93), then the deficit would be gone by 2060
  – If there was a 2% tax increase each year, the deficit would be gone by 2040.
  – It is clear that municipalities need other strategies to fund infrastructure, such as investments
Work (con’t)

• AM training
  – Comprehensive AM training over next 2 years from LAS and MFOA
  – Including development of funding strategies to fit your local situation

• New revenue sources
  – MFOA establishing new committee
  – Minister indicated a willingness to look at this at AMO conference

• Funding
  – AMO and MFOA long advocates for long-term committed funding programs
  – AMO’s What’s Next Ontario Initiative

• Seeking broader investment powers
  – New powers, new products, new vision
Quantifying key concepts

Ability to pay, fiscal health

Infrastructure intensity
Conclusion

• Local government is big business
• Services delivered through huge asset base
• Very substantial funding pressures on municipalities
  – Much of it related to asset management
  – Also service improvements, growth, etc.
• Senior governments will continue to provide funding, but it won’t likely be all you need
• Need for planning is undeniable
• Debate will get interesting with reliable data
Questions?

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