Financial Sustainability and Asset Management

“The winds and waves are always on the side of the ablest navigators”. - Edward Gibbon

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Introduction

• York is conducting a research project on behalf of AMO entitled “Municipal Infrastructure Investment and Financial Sustainability”

• The project looks at long-term municipal financial sustainability by examining the inter-relationships between capital, reserves and debt

• We have:
  • Built a database that contains over 1.2 million municipal data points for the years 2009 to 2014
  • Grouped the data by municipal structure, geography, population, population growth and average household income
  • Calculated a variety of metrics relating to capital, revenue, fiscal capacity, and debt and reserves for all the municipalities
  • Examined the data to identify patterns and trends
Key messages

- Financial sustainability requires long-term planning

- Asset management is arguably the greatest challenge to achieving financial sustainability

- To achieve financial sustainability, most municipalities will need a fiscal strategy that articulates the long-term relationships between the capital plan, reserves and debt

- Fiscal capacity and infrastructure intensity regulate how easy or difficult it is to achieve financial sustainability
Some Analytical Findings

“As a rule, people worry more about what they cannot see than about what they can.” - Julius Caesar
Most single-tiers have varying levels of infrastructure intensity and below average fiscal capacity.

**Single-tiers**

- **High Fiscal Capacity, High Infrastructure Intensity**: 4% - Fortunate Few
- **High Fiscal Capacity, Low Infrastructure Intensity**: 1% - Fiscal Strategy is Critical
- **Low Fiscal Capacity, Low Infrastructure Intensity**: 61% - Fiscal Strategy is Critical
- **Low Fiscal Capacity, High Infrastructure Intensity**: 34% - Unfortunate Zone

Infrastructures intensity = tangible capital assets (TCA) per household; fiscal capacity = weighted average assessment per household.

Data Sources: tangible capital assets and weighted average assessment, 2013, FIR; households, 2013, MPAC.
particularly the single-tiers in Northern Ontario
Single-tiers in Southern Ontario are in a relatively better position

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Upper-tier counties look similar to single-tiers in Southern Ontario

* The county of Oxford is excluded because it operates in a similar manner to a Region. It is included in the regional analysis.
Some of the lower-tiers within counties have high fiscal capacity.
Upper-tier Regions have comparatively high fiscal capacity and low infrastructure intensity

* This graph includes 6 Regions, and the District of Muskoka and the County of Oxford
Lower-tiers within Regions are similar to their upper-tier Regions

* This graph includes 57 lower-tiers from the 6 Regions, and the District of Muskoka and the County of Oxford
Investment Urgency

“Know what you own, and why you own it.” - Peter Lynch
Municipal infrastructure investment is inadequate

45% of growing municipalities do not sufficiently invest in their existing asset base.

61% of the municipalities with negative population growth do not sufficiently invest in their existing asset base.

Data sources: 2009-2013, FIR; adjusted annual amortization is estimated asset replacement cost divided by average asset useful life.
Municipal capital investment is not keeping up with the pace of amortization

Municipal capital expenditure was comparatively flat year over year, even though assets are aging

Data sources: capital expenditures and amortization of TCA, FIR; households, MPAC
Municipalities with older assets are often in Northeast and Eastern Ontario

42 Municipalities had at least 60% of their TCA Amortized in 2009

By 2014, 14 of these 42 municipalities saw their assets continue to deteriorate

Data source: TCA (excluding land) and amortization, FIR
The number of municipalities with older assets increased

42 Municipalities had at least 60% of their TCA Amortized in 2009

52 Municipalities had at least 60% of their TCA Amortized in 2014

Data source: TCA (excluding land) and amortization, FIR
Municipalities with positive population growth tend to have a younger asset base

45 municipalities had population growth over 5%*

The majority had 50% or less of their assets amortized in 2009

<table>
<thead>
<tr>
<th>Asset Condition</th>
<th>Relatively New</th>
<th>Moderately New</th>
<th>Moderately Old</th>
<th>Old Assets</th>
<th>Very Old Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of TCA Amortized</td>
<td>&lt; 25%</td>
<td>26% to 50%</td>
<td>51% to 60%</td>
<td>61% to 75%</td>
<td>&gt; 75%</td>
</tr>
</tbody>
</table>

* In the period of 2009 - 2013
……but assets in growing municipalities are also aging
Where do we stand?

“Change before you have to.” - Jack Welch
Investment urgency varies among single-tiers

**Singer-tiers**

- Population Below 5k
- Population Above 5k

Infrastructure intensity = TCA per household; Investment urgency = % of TCA (excluding land) amortized
Dashed line is at 60% of TCA amortized
Data Sources: amortization and tangible capital assets (excluding land), 2013, FIR; households, 2013, MPAC
Some single-tiers in Northern Ontario may want to take action sooner than later.
There is still time for single-tiers in Southern Ontario

Singer-tiers in Southern Ontario

- Central and Southwest Ontario
- Eastern Ontario
The story varies among upper-tier counties.

**Upper-tier Counties**

- **Infrastructure Intensity**
  - Low
  - High
- **Investment Urgency**
  - Low
  - High

- Population Below 50k
- Population Above 50k
A high degree of variation is also observed in lower-tiers within counties.
Upper-tier Regions have a bit more time

* This graph includes 6 Regions, and the District of Muskoka and the County of Oxford
Lower-tiers within Regions also have a bit of time
Conclusion

• Generally speaking, municipalities are not investing enough in their asset base.

• Municipalities demonstrate a great degree of variations in asset management, regardless of municipal structure and geography.

• Some municipalities have clearly identified problems and are taking steps to address them.

• Some municipalities, however, continue to see their asset base deteriorate.
Conclusion

- Fiscal capacity, hence revenue raising capacity, regulates asset management in most municipalities.

- Growing municipalities generally have a younger asset base but their assets are also aging.

- Fiscal strategy is key to achieving sustainable infrastructure investment. It is particularly critical for municipalities with near-term investment urgency.